

FIRST REGULAR SESSION

HOUSE BILL NO. 225

94TH GENERAL ASSEMBLY

INTRODUCED BY REPRESENTATIVES NANCE (Sponsor), MUNZLINGER, NOLTE,
FISHER AND FLOOK (Co-sponsors).

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D. ADAM CRUMBLISS, Chief Clerk

0686L.01I

AN ACT

To repeal sections 143.121, 143.123, and 143.124, RSMo, and to enact in lieu thereof three new sections relating to taxes on annuities, pensions, retirement allowances, and Social Security benefits.

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

Section A. Sections 143.121, 143.123, and 143.124, RSMo, are repealed and three new sections enacted in lieu thereof, to be known as sections 143.121, 143.123, and 143.124, to read as follows:

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

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

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

(b) 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 subdivision (a) of subsection 3 of this section. 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

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.

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
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 taxable income but disallowed for Missouri income tax purposes pursuant
27 to this paragraph after June 18, 2002, may be carried forward and taken against any income on
28 the Missouri income tax return for a period of not more than twenty years from the year of the
29 initial loss.

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

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

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

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

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

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

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

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

64 (h) For all tax years beginning on or after January 1, 2005, the amount of any income
65 received for military service while the taxpayer serves in a combat zone which is included in
66 federal adjusted gross income and not otherwise excluded therefrom. As used in this section,
67 "combat zone" means any area which the President of the United States by Executive Order
68 designates as an area in which armed forces of the United States are or have engaged in combat.
69 Service is performed in a combat zone only if performed on or after the date designated by the
70 President by Executive Order as the date of the commencing of combat activities in such zone,
71 and on or before the date designated by the President by Executive Order as the date of the
72 termination of combatant activities in such zone; [and]

73 (i) For all tax years ending on or after July 1, 2002, with respect to qualified property that
74 is sold or otherwise disposed of during a taxable year by a taxpayer and for which an addition
75 modification was made under paragraph (c) of subsection 2 of this section, the amount by which
76 addition modification made under paragraph (c) of subsection 2 of this section on qualified
77 property has not been recovered through the additional subtractions provided in paragraph (g)
78 of this subsection;

79 (j) **For all tax years beginning on or after January 1, 2007, the amount of any Social**
80 **Security benefits received by any taxpayer that are included in the taxpayer's federal**
81 **adjusted gross income under Section 86 of the Internal Revenue Code of 1986, as amended.**

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

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

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

 143.123. **1. For all taxable years ending on or before December 31, 2006,** any six
2 thousand dollar subtraction provided by law for annuities, pensions, and retirement allowances
3 in total per taxpayer, as hereafter provided by subsequent law, shall be implemented in a
4 maximum amount of six thousand dollars per year, or three thousand dollars for a six-month
5 period.

6 **2. For all taxable years beginning on or after January 1, 2007, any eighteen**
7 **thousand dollar subtraction provided by law for annuities, pensions, and retirement**
8 **allowances in total per taxpayer, as hereafter provided by subsequent law, shall be**
9 **implemented in a maximum amount of eighteen thousand dollars per year, or nine**
10 **thousand dollars for a six-month period.**

 143.124. 1. Other provisions of law to the contrary notwithstanding, **for all taxable**
2 **years ending on or before December 31, 2006,** the total amount of all annuities, pensions, or
3 retirement allowances above the amount of six thousand dollars annually provided by any law
4 of this state, the United States, or any other state to any person except as provided in subsection
5 4 of this section, shall be subject to tax pursuant to the provisions of this chapter, in the same
6 manner, to the same extent and under the same conditions as any other taxable income received
7 by the person receiving it. **For all taxable years beginning on or after January 1, 2007, the**
8 **total amount of all annuities, pensions, or retirement allowances above the amount of**
9 **eighteen thousand dollars annually provided by any law of this state, the United States, or**
10 **any other state to any person except as provided in subsection 4 of this section, shall be**
11 **subject to tax under the provisions of this chapter, in the same manner, to the same extent**
12 **and under the same conditions as any other taxable income received by the person**
13 **receiving it.** For purposes of this section, annuity, pension, or retirement allowance shall be
14 defined as an annuity, pension, or retirement allowance provided by the United States, this state,
15 any other state or any political subdivision or agency or institution of this or any other state. For
16 all tax years beginning on or after January 1, 1998, for purposes of this section, annuity, pension,
17 or retirement allowance shall be defined to include 401(k) plans, deferred compensation plans,

18 self-employed retirement plans, also known as Keogh plans, annuities from a defined pension
19 plan and individual retirement arrangements, also known as IRAs, as described in the Internal
20 Revenue Code, but not including Roth IRAs, as well as an annuity, pension, or retirement
21 allowance provided by the United States, this state, any other state or any political subdivision
22 or agency or institution of this or any other state. An individual taxpayer shall only be allowed
23 a maximum deduction of six thousand dollars, **or eighteen thousand dollars in all taxable**
24 **years beginning on or after January 1, 2007**, pursuant to this section. Taxpayers filing
25 combined returns shall only be allowed a maximum deduction of six thousand dollars, **or**
26 **eighteen thousand dollars in all taxable years beginning on or after January 1, 2007**, for
27 each taxpayer on the combined return.

28 2. [For the period beginning July 1, 1989, and ending December 31, 1989, there shall be
29 subtracted from Missouri adjusted gross income for that period, determined pursuant to section
30 143.121, the first three thousand dollars of retirement benefits received by each taxpayer:

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

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

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

38 3.] For the tax years beginning on or after January 1, 1990, **but ending on or before**
39 **December 31, 2006**, there shall be subtracted from Missouri adjusted gross income, determined
40 pursuant to section 143.121, a maximum of the first six thousand dollars of retirement benefits
41 received by each taxpayer from sources other than privately funded sources, and for tax years
42 beginning on or after January 1, 1998, **and ending on or before December 31, 2006**, there shall
43 be subtracted from Missouri adjusted gross income, determined pursuant to section 143.121, a
44 maximum of the first one thousand dollars of any retirement allowance received from any
45 privately funded source for tax years beginning on or after January 1, 1998, but before January
46 1, 1999, and a maximum of the first three thousand dollars of any retirement allowance received
47 from any privately funded source for tax years beginning on or after January 1, 1999, but before
48 January 1, 2000, and a maximum of the first four thousand dollars of any retirement allowance
49 received from any privately funded source for tax years beginning on or after January 1, 2000,
50 but before January 1, 2001, and a maximum of the first five thousand dollars of any retirement
51 allowance received from any privately funded source for tax years beginning on or after January
52 1, 2001, but before January 1, 2002, and a maximum of the first six thousand dollars of any
53 retirement allowance received from any privately funded sources for tax years beginning on or

54 after January 1, 2002, **but ending on or before December 31, 2006. For all taxable years**
55 **beginning on or after January 1, 2006, there shall be subtracted from Missouri adjusted**
56 **gross income, determined under section 143.121, a maximum of the first eighteen thousand**
57 **dollars of retirement allowance received by each taxpayer from any source.** A taxpayer
58 shall be entitled to the maximum exemption provided by this subsection:

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

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

63 (3) If the taxpayer's filing status is married filing separately and the taxpayer's Missouri
64 adjusted gross income is less than sixteen thousand dollars.

65 [4.] 3. If a taxpayer's adjusted gross income exceeds the adjusted gross income ceiling
66 for such taxpayer's filing status, as provided in subdivisions (1), (2) and (3) of subsection [3] 2
67 of this section, such taxpayer shall be entitled to an exemption equal to the greater of zero or the
68 maximum exemption provided in subsection [3] 2 of this section reduced by one dollar for every
69 dollar such taxpayer's income exceeds the ceiling for his or her filing status.

70 [5.] 4. For purposes of this section, any Social Security benefits otherwise included in
71 Missouri adjusted gross income shall be subtracted; but Social Security benefits shall not be
72 subtracted for purposes of other computations pursuant to this chapter, and are not to be
73 considered as retirement benefits for purposes of this section.

74 [6.] 5. The provisions of subdivisions (1) and (2) of subsection [3] 2 of this section shall
75 apply during all tax years in which the federal Internal Revenue Code provides exemption levels
76 for calculation of the taxability of Social Security benefits that are the same as the levels in
77 subdivisions (1) and (2) of subsection [3] 2 of this section. If the exemption levels for the
78 calculation of the taxability of Social Security benefits are adjusted by applicable federal law or
79 regulation, the exemption levels in subdivisions (1) and (2) of subsection [3] 2 of this section
80 shall be accordingly adjusted to the same exemption levels.

81 [7.] 6. The portion of a taxpayer's lump sum distribution from an annuity or other
82 retirement plan not otherwise included in Missouri adjusted gross income as calculated pursuant
83 to this chapter but subject to taxation under Internal Revenue Code Section 402 shall be taxed
84 in an amount equal to ten percent of the taxpayer's federal liability on such distribution for the
85 same tax year.

86 [8.] 7. For purposes of this section, retirement benefits received shall not include any
87 withdrawals from qualified retirement plans which are subsequently rolled over into another
88 retirement plan.

89 [9.] **8.** The exemptions provided for in this section shall not affect the calculation of the
90 income to be used to determine the property tax credit provided in sections 135.010 to 135.035,
91 RSMo.

92 [10.] **9.** The exemptions provided for in this section shall apply to any annuity, pension,
93 or retirement allowance as defined in subsection 1 of this section to the extent that such amounts
94 are included in the taxpayer's federal adjusted gross income and not otherwise deducted from the
95 taxpayer's federal adjusted gross income in the calculation of Missouri taxable income. This
96 subsection shall not apply to any individual who qualifies under federal guidelines to be one
97 hundred percent disabled.

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