

SECOND REGULAR SESSION

HOUSE BILL NO. 2457

102ND GENERAL ASSEMBLY

INTRODUCED BY REPRESENTATIVE JUSTUS.

3988H.011

DANA RADEMAN MILLER, Chief Clerk

AN ACT

To repeal section 143.121, RSMo, and to enact in lieu thereof one new section relating to research and experimentation costs.

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Section A. Section 143.121, RSMo, is repealed and one new section enacted in lieu thereof, to be known as section 143.121, to read as follows: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:

(1) The amount of any federal income tax refund received for a prior year which resulted in a Missouri income tax benefit. The amount added pursuant to this subdivision shall not include any amount of a federal income tax refund attributable to a tax credit reducing a taxpayer's federal tax liability pursuant to Public Law 116-136 or 116-260, enacted by the 116th United States Congress, for the tax year beginning on or after January 1, 2020, and ending on or before December 31, 2020, and deducted from Missouri adjusted gross income pursuant to section 143.171. The amount added under this subdivision shall also not include any amount of a federal income tax refund attributable to a tax credit reducing a taxpayer's federal tax liability under any other federal law that provides direct economic impact payments to taxpayers to mitigate financial challenges related to the COVID-19 pandemic, and deducted from Missouri adjusted gross income under section 143.171;

(2) Interest on certain governmental obligations excluded from federal gross income by 26 U.S.C. Section 103 of the Internal Revenue Code, as amended. The previous sentence shall not apply to interest on obligations of the state of Missouri or any of its political

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 subdivisions or authorities and shall not apply to the interest described in subdivision (1) of
19 subsection 3 of this section. The amount added pursuant to this subdivision shall be reduced
20 by the amounts applicable to such interest that would have been deductible in computing the
21 taxable income of the taxpayer except only for the application of 26 U.S.C. Section 265 of the
22 Internal Revenue Code, as amended. The reduction shall only be made if it is at least five
23 hundred dollars;

24 (3) The amount of any deduction that is included in the computation of federal
25 taxable income pursuant to 26 U.S.C. Section 168 of the Internal Revenue Code as amended
26 by the Job Creation and Worker Assistance Act of 2002 to the extent the amount deducted
27 relates to property purchased on or after July 1, 2002, but before July 1, 2003, and to the
28 extent the amount deducted exceeds the amount that would have been deductible pursuant to
29 26 U.S.C. Section 168 of the Internal Revenue Code of 1986 as in effect on January 1, 2002;

30 (4) The amount of any deduction that is included in the computation of federal
31 taxable income for net operating loss allowed by 26 U.S.C. Section 172 of the Internal
32 Revenue Code of 1986, as amended, other than the deduction allowed by 26 U.S.C. Section
33 172(b)(1)(G) and 26 U.S.C. Section 172(i) of the Internal Revenue Code of 1986, as
34 amended, for a net operating loss the taxpayer claims in the tax year in which the net
35 operating loss occurred or carries forward for a period of more than twenty years and carries
36 backward for more than two years. Any amount of net operating loss taken against federal
37 taxable income but disallowed for Missouri income tax purposes pursuant to this subdivision
38 after June 18, 2002, may be carried forward and taken against any income on the Missouri
39 income tax return for a period of not more than twenty years from the year of the initial loss;
40 and

41 (5) For nonresident individuals in all taxable years ending on or after December 31,
42 2006, the amount of any property taxes paid to another state or a political subdivision of
43 another state for which a deduction was allowed on such nonresident's federal return in the
44 taxable year unless such state, political subdivision of a state, or the District of Columbia
45 allows a subtraction from income for property taxes paid to this state for purposes of
46 calculating income for the income tax for such state, political subdivision of a state, or the
47 District of Columbia;

48 (6) For all tax years beginning on or after January 1, 2018, any interest expense paid
49 or accrued in a previous taxable year, but allowed as a deduction under 26 U.S.C. Section
50 163, as amended, in the current taxable year by reason of the carryforward of disallowed
51 business interest provisions of 26 U.S.C. Section 163(j), as amended. For the purposes of this
52 subdivision, an interest expense is considered paid or accrued only in the first taxable year the
53 deduction would have been allowable under 26 U.S.C. Section 163, as amended, if the
54 limitation under 26 U.S.C. Section 163(j), as amended, did not exist;

55 **(7) For all tax years beginning on or after January 1, 2022, the amount deducted**
 56 **by the taxpayer under 26 U.S.C. Section 174(a)(2)(B), as amended, for the tax year.**

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

59 (1) Interest received on deposits held at a federal reserve bank or interest or dividends
 60 on obligations of the United States and its territories and possessions or of any authority,
 61 commission or instrumentality of the United States to the extent exempt from Missouri
 62 income taxes pursuant to the laws of the United States. The amount subtracted pursuant to
 63 this subdivision shall be reduced by any interest on indebtedness incurred to carry the
 64 described obligations or securities and by any expenses incurred in the production of interest
 65 or dividend income described in this subdivision. The reduction in the previous sentence
 66 shall only apply to the extent that such expenses including amortizable bond premiums are
 67 deducted in determining the taxpayer's federal adjusted gross income or included in the
 68 taxpayer's Missouri itemized deduction. The reduction shall only be made if the expenses
 69 total at least five hundred dollars;

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

75 (3) The amount necessary to prevent the taxation pursuant to this chapter of any
 76 annuity or other amount of income or gain which was properly included in income or gain and
 77 was taxed pursuant to the laws of Missouri for a taxable year prior to January 1, 1973, to the
 78 taxpayer, or to a decedent by reason of whose death the taxpayer acquired the right to receive
 79 the income or gain, or to a trust or estate from which the taxpayer received the income or
 80 gain;

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

83 (5) The amount of any state income tax refund for a prior year which was included in
 84 the federal adjusted gross income;

85 (6) The portion of capital gain specified in section 135.357 that would otherwise be
 86 included in federal adjusted gross income;

87 (7) The amount that would have been deducted in the computation of federal taxable
 88 income pursuant to 26 U.S.C. Section 168 of the Internal Revenue Code as in effect on
 89 January 1, 2002, to the extent that amount relates to property purchased on or after July 1,
 90 2002, but before July 1, 2003, and to the extent that amount exceeds the amount actually

91 deducted pursuant to 26 U.S.C. Section 168 of the Internal Revenue Code as amended by the
92 Job Creation and Worker Assistance Act of 2002;

93 (8) For all tax years beginning on or after January 1, 2005, the amount of any income
94 received for military service while the taxpayer serves in a combat zone which is included in
95 federal adjusted gross income and not otherwise excluded therefrom. As used in this section,
96 "combat zone" means any area which the President of the United States by Executive Order
97 designates as an area in which Armed Forces of the United States are or have engaged in
98 combat. Service is performed in a combat zone only if performed on or after the date
99 designated by the President by Executive Order as the date of the commencing of combat
100 activities in such zone, and on or before the date designated by the President by Executive
101 Order as the date of the termination of combatant activities in such zone;

102 (9) For all tax years ending on or after July 1, 2002, with respect to qualified property
103 that is sold or otherwise disposed of during a taxable year by a taxpayer and for which an
104 additional modification was made under subdivision (3) of subsection 2 of this section, the
105 amount by which additional modification made under subdivision (3) of subsection 2 of this
106 section on qualified property has not been recovered through the additional subtractions
107 provided in subdivision (7) of this subsection;

108 (10) For all tax years beginning on or after January 1, 2014, the amount of any
109 income received as payment from any program which provides compensation to agricultural
110 producers who have suffered a loss as the result of a disaster or emergency, including the:

- 111 (a) Livestock Forage Disaster Program;
- 112 (b) Livestock Indemnity Program;
- 113 (c) Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish;
- 114 (d) Emergency Conservation Program;
- 115 (e) Noninsured Crop Disaster Assistance Program;
- 116 (f) Pasture, Rangeland, Forage Pilot Insurance Program;
- 117 (g) Annual Forage Pilot Program;
- 118 (h) Livestock Risk Protection Insurance Plan;
- 119 (i) Livestock Gross Margin Insurance Plan;

120 (11) For all tax years beginning on or after January 1, 2018, any interest expense paid
121 or accrued in the current taxable year, but not deducted as a result of the limitation imposed
122 under 26 U.S.C. Section 163(j), as amended. For the purposes of this subdivision, an interest
123 expense is considered paid or accrued only in the first taxable year the deduction would have
124 been allowable under 26 U.S.C. Section 163, as amended, if the limitation under 26 U.S.C.
125 Section 163(j), as amended, did not exist;

126 (12) One hundred percent of any retirement benefits received by any taxpayer as a
127 result of the taxpayer's service in the Armed Forces of the United States, including reserve

128 components and the National Guard of this state, as defined in 32 U.S.C. Sections 101(3) and
 129 109, and any other military force organized under the laws of this state; ~~and]~~

130 (13) One hundred percent of any federal grant moneys received for the purpose of
 131 providing or expanding access to broadband internet to areas of the state deemed to be lacking
 132 such access; **and**

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

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

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

142 6. In addition to the modifications to a taxpayer's federal adjusted gross income in this
 143 section, to calculate Missouri adjusted gross income there shall be subtracted from the
 144 taxpayer's federal adjusted gross income any gain recognized pursuant to 26 U.S.C. Section
 145 1033 of the Internal Revenue Code of 1986, as amended, arising from compulsory or
 146 involuntary conversion of property as a result of condemnation or the imminence thereof.

147 7. (1) As used in this subsection, "qualified health insurance premium" means the
 148 amount paid during the tax year by such taxpayer for any insurance policy primarily
 149 providing health care coverage for the taxpayer, the taxpayer's spouse, or the taxpayer's
 150 dependents.

151 (2) In addition to the subtractions in subsection 3 of this section, one hundred percent
 152 of the amount of qualified health insurance premiums shall be subtracted from the taxpayer's
 153 federal adjusted gross income to the extent the amount paid for such premiums is included in
 154 federal taxable income. The taxpayer shall provide the department of revenue with proof of
 155 the amount of qualified health insurance premiums paid.

156 8. (1) Beginning January 1, 2014, in addition to the subtractions provided in this
 157 section, one hundred percent of the cost incurred by a taxpayer for a home energy audit
 158 conducted by an entity certified by the department of natural resources under section 640.153
 159 or the implementation of any energy efficiency recommendations made in such an audit shall
 160 be subtracted from the taxpayer's federal adjusted gross income to the extent the amount paid
 161 for any such activity is included in federal taxable income. The taxpayer shall provide the
 162 department of revenue with a summary of any recommendations made in a qualified home
 163 energy audit, the name and certification number of the qualified home energy auditor who
 164 conducted the audit, and proof of the amount paid for any activities under this subsection for

165 which a deduction is claimed. The taxpayer shall also provide a copy of the summary of any
166 recommendations made in a qualified home energy audit to the department of natural
167 resources.

168 (2) At no time shall a deduction claimed under this subsection by an individual
169 taxpayer or taxpayers filing combined returns exceed one thousand dollars per year for
170 individual taxpayers or cumulatively exceed two thousand dollars per year for taxpayers
171 filing combined returns.

172 (3) Any deduction claimed under this subsection shall be claimed for the tax year in
173 which the qualified home energy audit was conducted or in which the implementation of the
174 energy efficiency recommendations occurred. If implementation of the energy efficiency
175 recommendations occurred during more than one year, the deduction may be claimed in more
176 than one year, subject to the limitations provided under subdivision (2) of this subsection.

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

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

182 10. (1) As used in this subsection, the following terms mean:

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

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

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

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

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

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

195 a. A sale to a beginning farmer;

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

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

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

201 (2) (a) In addition to all other subtractions authorized in this section, a taxpayer who
202 is a farm owner who sells all or a portion of such farmland to a beginning farmer may subtract
203 from such taxpayer's Missouri adjusted gross income an amount to the extent included in
204 federal adjusted gross income as provided in this subdivision.

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

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

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

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

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

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

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

216 (d) The department of revenue shall prepare an annual report reviewing the costs and
217 benefits and containing statistical information regarding the subtraction of capital gains
218 authorized under this subdivision for the previous tax year including, but not limited to, the
219 total amount of all capital gains subtracted and the number of taxpayers subtracting such
220 capital gains. Such report shall be submitted before February first of each year to the
221 committee on agriculture policy of the Missouri house of representatives and the committee
222 on agriculture, food production and outdoor resources of the Missouri senate, or the successor
223 committees.

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

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

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

236 (4) (a) In addition to all other subtractions authorized in this section, a taxpayer who
237 is a farm owner who enters a crop-share arrangement on all or a portion of such farmland with

238 a beginning farmer may subtract from such taxpayer's Missouri adjusted gross income an
239 amount to the extent included in federal adjusted gross income as provided in this
240 subdivision.

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

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

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

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