

HB 1912 -- TAXATION OF PASS-THROUGH ENTITIES

SPONSOR: McGirl

COMMITTEE ACTION: Voted "Do Pass" by the Standing Committee on Ways and Means by a vote of 10 to 0. Voted "Do Pass" by the Standing Committee on Rules- Regulatory Oversight by a vote of 9 to 0.

Currently, the law authorizes a taxpayer to claim a tax credit for income tax paid to another state on income that is also taxable in Missouri. This bill allows S Corporation shareholders to take a similar tax credit for the shareholder's share of the S Corporation's income derived from sources in another state.

Currently, the SALT Parity Act allows for an alternative method for the taxation of income in pass-through entities, as well as a tax credit against those sources of income tax. Current law also allows a taxpayer to reduce his or her tax burden through use of the federal business income deduction. This bill would alter such calculation by allowing the use of the Missouri state business income deduction instead.

This bill also allows a member of an affected business entity to opt-out of the SALT Parity Act's taxation methods . If one or more members opt-out, the affected business shall subtract the opt-out members' allocable income and deduction items. If a member does not file a timely opt-out election for a tax year, that member shall not be precluded from timely filing an opt-out election for subsequent tax years.

If a nonresident member choses to opt out, that nonresident shall agree to:

(1) File a return based on Missouri nonresident adjusted gross income and to make timely payment of taxes with respect to income of the affected business entity; and

(2) Be subject to personal jurisdiction in this state for purposes of tax collection with respect to the income of the affected business entity.

This bill also applies the SALT Parity tax credit to a fiduciary of an estate or trust that is also a member of an affected business entity.

This bill is similar to SB 1250 (2024).

PROPONENTS: Supporters say that the bill will allow a Missouri worker to deduct more from their taxable income, giving individuals and small business owners the ability to take the highest deduction possible. Additionally, the provisions of the bill will simplify the Missouri tax code, thereby making Missouri a more attractive state for potential businesses to relocate. Proponents also state that the bill will make it far easier for tax software companies, accountants, and CPAs to do their jobs more effectively for their clients.

Testifying in person for the bill were Representative McGirl; Associated Industries of Missouri; Mo Society of CPA's; David Jackson, Allegis/Redwood/Maxim Public Affairs, LLC; and Mo Chamber of Commerce.

OPPONENTS: There was no opposition voiced to the committee.

OTHERS: Others testifying on the bill say the Department of Revenue has worked closely with Missouri state accountants on the bill, and that the bill carries a \$0 Fiscal Note.

Testifying in person on the bill was Zachary Wyatt, Department of Revenue.

Written testimony has been submitted for this bill. The full written testimony and witnesses testifying online can be found under Testimony on the bill page on the House website.