

HB 3405 -- TAXATION OF PASS-THROUGH ENTITIES (Thompson)

COMMITTEE OF ORIGIN: Standing Committee on Ways and Means

Currently, the sum of the separately and nonseparately computed income and deduction items of an affected business entity must be decreased by the percentage deduction that would be allowable to certain business owners that receive certain deductions for business income. This bill provides that the sum of the separately and nonseparately computed income and deduction items of an affected business entity must be 20% of the affected business entity's ordinary business income as reported on the partnership's Federal Form 1065 or on the S corporation's Federal Form 1120-S.

Currently, any member of an affected business entity may elect not have a certain tax imposed as it relates to the affected business entity's separately and nonseparately computed items. The bill provides that a member who has filed an opt-out election must be ineligible for certain tax credits or deductions described in the bill.

Currently, each member of a partnership or S corporation that is subject to the resident individual state income tax or the nonresident individual state income tax is entitled to a credit against such individual's state income tax. The credit must be an amount equal to the member's direct and indirect pro rata share of state and local tax (SALT tax) paid by the affected partnership or S corporation of which the individual is a direct or indirect member.

Beginning January 1, 2027, this bill provides that, for each member that is subject to the resident individual state income tax or the nonresident individual state income tax, an amount equal to the sum of the member's direct and indirect pro rata share of the SALT tax paid by the affected partnership or S corporation of which the individual is a direct or indirect member and divided by a certain percentage must be subtracted from the member's Missouri adjusted gross income.

Currently, each member of a partnership or S corporation that is subject to the resident individual state income tax as a resident or part-year resident is entitled to a credit against such state income tax. This bill also entitles each member subject to the resident individual state income tax as a resident or part-year resident to a credit for income taxes paid to another state.

Currently, each member corporation or fiduciary of a member estate or trust that is subject to corporate state income tax or fiduciary state income tax is entitled to a credit against the corporate state income tax. The credit must be an amount equal to the corporation's, estate's, or trust's direct and indirect pro rata share of the SALT tax paid by the affected partnership or S corporation of which the corporation or fiduciary is a direct or indirect member.

Beginning January 1, 2027, this bill provides that, for each member corporation or the fiduciary of a member estate or trust that is subject to corporate state income tax or fiduciary state income tax, an amount equal to the such corporation's, estate's, or trust's direct and indirect pro rata share of the SALT tax paid by the affected partnership or S corporation of which the corporation or fiduciary of a member estate or trust is a direct or indirect member and divided by a certain percentage must be subtracted from the member corporation's or fiduciary's Missouri adjusted gross income.