

Enacted Missouri legislation includes personal income tax changes

Overview

On July 12, 2018, Governor Mike Parson signed House Bill 2540 (H.B. 2540).¹ Under the Missouri Constitution, H.B. 2540 will become effective 90 days after the adjournment of the legislative session on May 30, 2018, which will be August 28, 2018.² H.B. 2540 includes the following modifications to Missouri law:

- Reduction of the top personal income tax rate by 0.4% effective January 1, 2019, from 5.8% to 5.4%.
- Reduction of the maximum potential business income deduction for individual taxpayers to 20%.
- Disallowance of Missouri personal and dependency exemptions when the federal exemption amount is zero.
- Phase out of the federal income tax deduction for individuals based on Missouri adjusted gross income limits effective January 1, 2019.

This tax alert summarizes the Missouri tax law changes provided in H.B. 2540.

Reduction of the top personal income tax rate by 0.4%

Under current law, beginning with the 2017 calendar year, if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least \$150 million (hereafter referred to as the "state revenue threshold"), the top personal income tax rate shall be reduced by 0.1% on January 1 of the following calendar year, with such rate reduced no lower than 5.5%.³ On January 1, 2018, the first 0.1% reduction became effective, with the top tax rate reduced from 6.0% to 5.9%, and on January 1, 2019, the second reduction will become effective, lowering the top tax rate to 5.8%.

Under H.B. 2540, the 0.1% incremental rate reduction tied to the amount of net general revenue collected is no longer linked to the tax rate being reduced no lower than 5.5%, and instead, the rate reductions under this provision are limited to no more than five reductions.⁴ In addition to these potential 0.1% rate reductions, H.B. 2540 also provides that, effective January 1, 2019, the top personal income tax rate shall be reduced by 0.4%.⁵ As a result, effective January 1, 2019, the top personal income tax rate will be reduced to 5.4%, and in subsequent years, three more 0.1% rate reductions could apply and ultimately lower the top tax rate to 5.1%.

Reduction of the maximum potential business income deduction to 20%

Under current law, a percentage of business income may be subtracted from the federal adjusted gross income of an individual when determining such individual's Missouri adjusted gross income.⁶ The business income deduction percentage may be increased by 5% each January 1 if the net general revenue collected in the previous fiscal year exceeds the state revenue threshold, subject to a maximum deduction of 25%.⁷ Effective January 1, 2018, the business income deduction percentage was 5%, and effective January 1, 2019, the percentage will increase to 10%. H.B. 2540 reduces the maximum potential business income deduction percentage from 25% to 20%.⁸

¹ 2018 Regular Session (H.B. 2540). A copy of the adopted law is available [here](#).

² Missouri Constitution, Article III, Section 29.

³ Mo. Rev. Stat. § 143.011.2.

⁴ H.B. 2540, amending Mo. Rev. Stat. § 143.011.2.

⁵ H.B. 2540, amending Mo. Rev. Stat. § 143.011.3.

⁶ Mo. Rev. Stat. § 143.022.

⁷ *Id.*

⁸ H.B. 2540, amending Mo. Rev. Stat. § 143.022.4.

Disallowance of Missouri personal and dependency exemptions

Under current law, an individual taxpayer can deduct \$2,100 as a personal exemption, \$2,100 for a spouse, and \$1,200 for each dependent. H.B. 2540 provides that the Missouri personal and dependency exemptions are not allowed if the federal exemption amount is zero.⁹

Phase out of the federal income tax deduction for individuals

Under current law, an individual taxpayer can deduct up to \$5,000 of their federal income tax liability, or in the case of a combined return, up to \$10,000.¹⁰ Effective January 1, 2019, H.B. 2540 phases out the federal income tax deduction for individuals on the basis of Missouri adjusted gross income.¹¹ An individual's federal income tax deduction is based on a percentage of their federal income tax liability, subject to a maximum deduction of \$5,000 on a single taxpayer's return or \$10,000 on a combined return.¹² The deduction percentage is determined by the table below:

Missouri Adjusted Gross Income	Deduction Percentage
\$25,000 or less	35%
\$25,001 to \$50,000	25%
\$50,001 to \$100,000	15%
\$100,001 to \$125,000	5%
\$125,001 or more	0%

Considerations

H.B. 2540 provides changes that may impact individual taxpayers filing in Missouri. Taxpayers impacted by the enactment of H.B. 2540 should consult with their Missouri tax advisors for further assistance.

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⁹ H.B. 2540, amending Mo. Rev. Stat. §§ 143.151; 143.161.1.

¹⁰ Mo. Rev. Stat. § 143.171.1.

¹¹ H.B. 2540, amending Mo. Rev. Stat. § 143.171.2.

¹² *Id.*