

Missouri Amends Personal Income Tax Law

May 8, 2014

Overview

On May 6, 2014, the Missouri legislature overrode Governor Nixon's veto of Senate Bill 509 (SB 509),¹ thus adopting the bill into law. Effective for taxable years beginning on or after January 1, 2017, SB 509 amends Missouri law as follows:

- Phase-in of personal income tax rate reductions
- Phase-in of a new business income deduction for individual taxpayers
- Annual adjustments to taxable income brackets for individual taxpayers
- An increase in the personal exemption deduction for eligible taxpayers

In this Tax Alert we summarize these law changes.

Phase-in of Personal Income Tax Rate Reductions

SB 509 maintains the current top rate of 6% for personal income tax purposes for taxable years through December 31, 2016.² For each subsequent calendar year, SB 509 provides a one-tenth of a percent (0.1%) reduction in the top rate of tax if the amount of net general revenue collected by the State of Missouri in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the prior three fiscal years by at least \$150 million (hereafter referred to as the "state revenue threshold").³ No more than one rate reduction shall occur in a calendar year, with the reduction effective on January 1 and such reduced rates continuing in effect until the next reduction occurs.⁴ The top rate of tax cannot be reduced below 5.5%.⁵

Phase-in of New Business Income Deduction for Individual Taxpayers

SB 509 includes a new deduction from Missouri adjusted gross income equal to a percentage of an individual's "business income" to the extent such business income is included in the taxpayer's federal adjusted gross income.⁶ "Business income" means the "income greater than zero arising from transactions in the regular course of all of a taxpayer's trade or business and shall be limited to the Missouri source net profit from the combination of the following:

- (1) The total combined profit as properly reported to the Internal Revenue Service on each Schedule C, or its successor form, filed; and
- (2) The total partnership and S corporation income or loss properly reported to the Internal Revenue Service on Part II of Schedule E, or its successor form."⁷

In computing the deduction for business income attributable to a partnership or S corporation, the partners and shareholders will be allowed an apportioned share in proportion to their share of ownership in the partnership or S corporation as reported on the taxpayer's schedule K-1, or its successor form, for the tax period for which such deduction is being claimed.⁸

The first year that a taxpayer can take this deduction is 2017; however, similar to the personal income tax rate reductions, the business income deduction only applies in 2017 if the state revenue threshold is satisfied.⁹ In 2017, the deduction is equal to 5% of business income.¹⁰ In subsequent years, if the state revenue threshold

¹ Laws 2014, 97th General Assembly, Second Regular Session (SB 509). A copy of the adopted law is accessible at: <http://www.senate.mo.gov/14info/pdf-bill/tat/SB509.pdf>.

² SB 509 (Mo. Rev. Stat. § 143.011.2).

³ *Id.*

⁴ *Id.*

⁵ *Id.*

⁶ SB 509 (Mo. Rev. Stat. § 143.022.2).

⁷ SB 509 (Mo. Rev. Stat. § 143.022.1).

⁸ SB 509 (Mo. Rev. Stat. § 143.022.3).

⁹ SB 509 (Mo. Rev. Stat. § 143.022.6).

¹⁰ *Id.*

is met, the amount of the deduction is increased by 5%, subject to a maximum deduction percentage of 25%.¹¹ No more than one increase in the deduction percentage shall occur in a calendar year, with the increase effective on January 1 and the increased deduction percentage continuing in effect until the next increase occurs.¹² An increase in the percentage will only apply to tax years that begin on or after the increase takes effect.¹³

Annual Adjustments to Taxable Income Brackets for Individual Taxpayers

SB 509 maintains the current taxable income brackets for personal income tax purposes for taxable years through December 31, 2016.¹⁴ For each subsequent calendar year, the new law requires an annual adjustment of the brackets by the “percent increase in inflation,” which is defined as the percentage by which the CPI¹⁵ “for the preceding calendar year exceeds the CPI for the year beginning September 1, 2014, and ending August 31, 2015.”¹⁶ The “CPI for the preceding calendar year” is “the average of the CPI as of the close of the twelve month period ending on August 31 of such calendar year.”¹⁷ Modifications to the taxable income brackets take effect on January 1 of each calendar year and shall apply to tax years beginning on or after the effective date of the new brackets.¹⁸

Increase in Personal Exemption Deduction for Eligible Taxpayers

The current personal exemption deduction in Missouri is \$2,100. However, for tax years beginning on or after January 1, 2017, SB 509 increases this deduction for certain eligible taxpayers as follows:

a resident with Missouri adjusted gross income of less than twenty thousand dollars shall be allowed an additional deduction of five hundred dollars for himself or herself and an additional five hundred dollars for his or her spouse if he or she is entitled to a deduction for such personal exemptions for federal income tax purposes and his or her spouse’s Missouri adjusted gross income is less than twenty thousand dollars.¹⁹

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¹¹ SB 509 (Mo. Rev. Stat. § 143.022.4).

¹² *Id.*

¹³ *Id.*

¹⁴ SB 509 (Mo. Rev. Stat. § 143.011.3).

¹⁵ CPI refers to the Consumer Price Index for All Urban Consumers for the U.S. as reported by the Bureau of Labor Statistics, or its successor index (Mo. Rev. Stat. § 143.011.4(3)).

¹⁶ SB 509 (Mo. Rev. Stat. §§ 143.011.3 and 143.011.4).

¹⁷ SB 509 (Mo. Rev. Stat. § 143.011.4(2)).

¹⁸ SB 509 (Mo. Rev. Stat. § 143.011.3).

¹⁹ SB 509 (Mo. Rev. Stat. § 143.151).