

SECOND REGULAR SESSION
SENATE COMMITTEE SUBSTITUTE FOR
HOUSE COMMITTEE SUBSTITUTE FOR
HOUSE BILL NO. 2540
99TH GENERAL ASSEMBLY

Reported from the Committee on Ways and Means, May 7, 2018, with recommendation that the Senate Committee Substitute do pass.

6148S.10C

ADRIANE D. CROUSE, Secretary.

AN ACT

To repeal sections 143.011, 143.022, 143.151, 143.161, and 143.171, RSMo, and to enact in lieu thereof six new sections relating to individual income taxes, with an effective date for certain sections and a contingent effective date for a certain section.

Be it enacted by the General Assembly of the State of Missouri, as follows:

Section A. Sections 143.011, 143.022, 143.151, 143.161, and 143.171, RSMo, are repealed and six new sections enacted in lieu thereof, to be known as sections 143.011, 143.022, 143.151, 143.161, 143.171, and 143.177, to read as follows:

143.011. 1. A tax is hereby imposed for every taxable year on the Missouri taxable income of every resident. The tax shall be determined by applying the tax table or the rate provided in section 143.021, which is based upon the following rates:

| If the Missouri taxable income is: | The tax is: |
|------------------------------------|--|
| Not over \$1,000.00 | 1 ½% of the Missouri taxable income |
| Over \$1,000 but not over \$2,000 | \$15 plus 2% of excess over \$1,000 |
| Over \$2,000 but not over \$3,000 | \$35 plus 2 1/2% of excess over \$2,000 |
| Over \$3,000 but not over \$4,000 | \$60 plus 3% of excess over \$3,000 |
| Over \$4,000 but not over \$5,000 | \$90 plus 3 1/2% of excess over \$4,000 |
| Over \$5,000 but not over \$6,000 | \$125 plus 4% of excess over \$5,000 |
| Over \$6,000 but not over \$7,000 | \$165 plus 4 1/2% of excess over \$6,000 |
| Over \$7,000 but not over \$8,000 | \$210 plus 5% of excess over \$7,000 |

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in this bill is not enacted and is intended to be omitted in the law.

| | | |
|----|-----------------------------------|--|
| 14 | Over \$8,000 but not over \$9,000 | \$260 plus 5 ½% of excess over \$8,000 |
| 15 | Over \$9,000 | \$315 plus 6% of excess over \$9,000 |

16 2. (1) Beginning with the 2017 calendar year, the top rate of tax under
17 subsection 1 of this section may be reduced over a period of years. Each
18 reduction in the top rate of tax shall be by one-tenth of a percent and no more
19 than one reduction shall occur in a calendar year. [The top rate of tax shall not
20 be reduced below five and one-half percent.] **No more than five reductions**
21 **shall be made under this subsection.** Reductions in the rate of tax shall take
22 effect on January first of a calendar year and such reduced rates shall continue
23 in effect until the next reduction occurs.

24 (2) A reduction in the rate of tax shall only occur if the amount of net
25 general revenue collected in the previous fiscal year exceeds the highest amount
26 of net general revenue collected in any of the three fiscal years prior to such
27 fiscal year by at least one hundred fifty million dollars.

28 (3) Any modification of tax rates under this subsection shall only apply
29 to tax years that begin on or after a modification takes effect.

30 (4) The director of the department of revenue shall, by rule, adjust the tax
31 tables under subsection 1 of this section to effectuate the provisions of this
32 subsection. The bracket for income subject to the top rate of tax shall be
33 eliminated once the top rate of tax has been reduced to five and one-half [of a]
34 percent, **and the top remaining rate of tax shall apply to all income in**
35 **excess of the income in the second highest remaining income bracket.**

36 3. (1) **In addition to the rate reductions under subsection 2 of**
37 **this section, beginning with the 2019 calendar year, the top rate of tax**
38 **under subsection 1 of this section shall be reduced by four-tenths of**
39 **one percent. Such reduction in the rate of tax shall take effect on**
40 **January first of the 2019 calendar year.**

41 (2) **The modification of tax rates under this subsection shall only**
42 **apply to tax years that begin on or after the date the modification takes**
43 **effect.**

44 (3) **The director of the department of revenue shall, by rule,**
45 **adjust the tax tables under subsection 1 of this section to effectuate the**
46 **provisions of this subsection.**

47 4. (1) **In addition to the rate reductions under subsections 2 and**
48 **3 of this section, beginning with the 2019 calendar year, the top rate of**
49 **tax under subsection 1 of this section may be reduced by one-tenth of**

50 **one percent. Such reduction in the rate of tax shall take effect on**
51 **January first of a calendar year.**

52 **(2) The reduction in the top rate of tax under this subsection**
53 **shall only occur if the Supreme Court of the United States renders a**
54 **decision, a law is passed by the federal government, or the Constitution**
55 **of the United States is amended which enables the state of Missouri to**
56 **require out-of-state sellers with no physical presence in the state to**
57 **collect and remit state and local sales taxes and the director of the**
58 **department of revenue notifies the general assembly that the**
59 **department is prepared to enforce such collection of taxes, provided**
60 **that the tax reduction under this subsection shall become effective if**
61 **such notification has not been made within nine months of the issuance**
62 **of a Supreme Court decision or the passage of a federal law or**
63 **constitutional amendment under this subdivision.**

64 **(3) The modification of tax rates under this subsection shall only**
65 **apply to tax years that begin on or after the date the modification takes**
66 **effect.**

67 **(4) The director of the department of revenue shall, by rule,**
68 **adjust the tax tables under subsection 1 of this section to effectuate the**
69 **provisions of this subsection.**

70 **5.** Beginning with the 2017 calendar year, the brackets of Missouri
71 taxable income identified in subsection 1 of this section shall be adjusted
72 annually by the percent increase in inflation. The director shall publish such
73 brackets annually beginning on or after October 1, 2016. Modifications to the
74 brackets shall take effect on January first of each calendar year and shall apply
75 to tax years beginning on or after the effective date of the new brackets.

76 **[4.] 6.** As used in this section, the following terms mean:

77 **(1) "CPI", the Consumer Price Index for All Urban Consumers for the**
78 **United States as reported by the Bureau of Labor Statistics, or its successor**
79 **index;**

80 **(2) "CPI for the preceding calendar year", the average of the CPI as of the**
81 **close of the twelve month period ending on August thirty-first of such calendar**
82 **year;**

83 **(3) "Net general revenue collected", all revenue deposited into the**
84 **general revenue fund, less refunds and revenues originally deposited**
85 **into the general revenue fund but designated by law for a specific**

86 distribution or transfer to another state fund;

87 (4) "Percent increase in inflation", the percentage, if any, by which the
88 CPI for the preceding calendar year exceeds the CPI for the year beginning
89 September 1, 2014, and ending August 31, 2015.

143.022. 1. As used in this section, "business income" means the income
2 greater than zero arising from transactions in the regular course of all of a
3 taxpayer's trade or business and shall be limited to the Missouri source net profit
4 from the combination of the following:

5 (1) The total combined profit as properly reported to the Internal Revenue
6 Service on each Schedule C, or its successor form, filed; and

7 (2) The total partnership and S corporation income or loss properly
8 reported to the Internal Revenue Service on Part II of Schedule E, or its
9 successor form.

10 2. In addition to all other modifications allowed by law, there shall be
11 subtracted from the federal adjusted gross income of an individual taxpayer a
12 percentage of such individual's business income, to the extent that such amounts
13 are included in federal adjusted gross income when determining such individual's
14 Missouri adjusted gross income.

15 3. In the case of an S corporation described in section 143.471 or a
16 partnership computing the deduction allowed under subsection 2 of this section,
17 taxpayers described in subdivision (1) or (2) of this subsection shall be allowed
18 such deduction apportioned in proportion to their share of ownership of the
19 business as reported on the taxpayer's Schedule K-1, or its successor form, for the
20 tax period for which such deduction is being claimed when determining the
21 Missouri adjusted gross income of:

22 (1) The shareholders of an S corporation as described in section 143.471;

23 (2) The partners in a partnership.

24 4. The percentage to be subtracted under subsection 2 of this section shall
25 be increased over a period of years. Each increase in the percentage shall be by
26 five percent and no more than one increase shall occur in a calendar year. The
27 maximum percentage that may be subtracted is [twenty-five] **twenty** percent of
28 business income. Any increase in the percentage that may be subtracted shall
29 take effect on January first of a calendar year and such percentage shall continue
30 in effect until the next percentage increase occurs. An increase shall only apply
31 to tax years that begin on or after the increase takes effect.

32 5. An increase in the percentage that may be subtracted under subsection

33 2 of this section shall only occur if the amount of net general revenue collected
34 in the previous fiscal year exceeds the highest amount of net general revenue
35 collected in any of the three fiscal years prior to such fiscal year by at least one
36 hundred fifty million dollars.

37 6. The first year that a taxpayer may make the subtraction under
38 subsection 2 of this section is 2017, provided that the provisions of subsection 5
39 of this section are met. If the provisions of subsection 5 of this section are met,
40 the percentage that may be subtracted in 2017 is five percent.

143.151. For all taxable years beginning before January 1, 1999, a
2 resident shall be allowed a deduction of one thousand two hundred dollars for
3 himself or herself and one thousand two hundred dollars for his or her spouse if
4 he or she is entitled to a deduction for such personal exemptions for federal
5 income tax purposes. For all taxable years beginning on or after January 1, 1999,
6 a resident shall be allowed a deduction of two thousand one hundred dollars for
7 himself or herself and two thousand one hundred dollars for his or her spouse if
8 he or she is entitled to a deduction for such personal exemptions for federal
9 income tax purposes, **provided that the exemption amount as defined**
10 **under 26 U.S.C. 151 is not zero.** For all tax years beginning on or after
11 January 1, 2017, a resident with a Missouri adjusted gross income of less than
12 twenty thousand dollars shall be allowed an additional deduction of five hundred
13 dollars for himself or herself and an additional five hundred dollars for his or her
14 spouse if he or she is entitled to a deduction for such personal exemptions for
15 federal income tax purposes, **provided that the exemption amount as**
16 **defined under 26 U.S.C. 151 is not zero,** and his or her spouse's Missouri
17 adjusted gross income is less than twenty thousand dollars.

143.161. 1. For all taxable years beginning after December 31, 1997, a
2 resident may deduct one thousand two hundred dollars for each dependent for
3 whom such resident is entitled to a dependency exemption deduction for federal
4 income tax purposes, **provided that the exemption amount as defined**
5 **under 26 U.S.C. 151 is not zero.** In the case of a dependent who has attained
6 sixty-five years of age on or before the last day of the taxable year, if such
7 dependent resides in the taxpayer's home or the dependent's own home or if such
8 dependent does not receive Medicaid or state funding while residing in a facility
9 licensed pursuant to chapter 198, the taxpayer may deduct an additional one
10 thousand dollars.

11 2. For all taxable years beginning on or after January 1, 1999, a resident

12 who qualifies as an unmarried head of household or as a surviving spouse for
 13 federal income tax purposes may deduct an additional one thousand four hundred
 14 dollars.

15 3. For all taxable years beginning on or after January 1, 2015, for each
 16 birth for which a certificate of birth resulting in stillbirth has been issued under
 17 section 193.165, a taxpayer may claim the exemption under subsection 1 of this
 18 section only in the taxable year in which the stillbirth occurred, if the child
 19 otherwise would have been a member of the taxpayer's household.

143.171. 1. For all tax years beginning on or after January 1, 1994, **and**
 2 **ending on or before December 31, 2018**, an individual taxpayer shall be
 3 allowed a deduction for his **or her** federal income tax liability under Chapter 1
 4 of the Internal Revenue Code for the same taxable year for which the Missouri
 5 return is being filed, not to exceed five thousand dollars on a single taxpayer's
 6 return or ten thousand dollars on a combined return, after reduction for all
 7 credits thereon, except the credit for payments of federal estimated tax, the credit
 8 for the overpayment of any federal tax, and the credits allowed by the Internal
 9 Revenue Code by **26 U.S.C. Section 31 [(tax withheld on wages)], 26 U.S.C.**
 10 **Section 27 [(tax of foreign country and United States possessions)], and 26**
 11 **U.S.C. Section 34 [(tax on certain uses of gasoline, special fuels, and lubricating**
 12 **oils)].**

13 2. **Notwithstanding any other provision of law to the contrary,**
 14 **for all tax years beginning on or after January 1, 2019, an individual**
 15 **taxpayer shall be allowed a deduction equal to a percentage of his or**
 16 **her federal income tax liability under Chapter 1 of the Internal**
 17 **Revenue Code for the same taxable year for which the Missouri return**
 18 **is being filed, not to exceed five thousand dollars on a single taxpayer's**
 19 **return or ten thousand dollars on a combined return, after reduction**
 20 **for all credits thereon, except the credit for payments of federal**
 21 **estimated tax, the credit for the overpayment of any federal tax, and**
 22 **the credits allowed by the Internal Revenue Code by 26 U.S.C. Section**
 23 **31, 26 U.S.C. Section 27, and 26 U.S.C. Section 34. The deduction**
 24 **percentage is determined according to the following table:**

| 25 If the Missouri adjusted gross 26 income on the return is: | The deduction percentage is: |
|--|------------------------------|
| 27 \$25,000 or less | 35 percent |
| 28 From \$25,001 to \$50,000 | 25 percent |

| | | |
|----|------------------------------------|-------------------|
| 29 | From \$50,001 to \$100,000 | 15 percent |
| 30 | From \$100,001 to \$125,000 | 5 percent |
| 31 | \$125,001 or more | 0 percent |

32 **3.** For all tax years beginning on or after September 1, 1993, a corporate
33 taxpayer shall be allowed a deduction for fifty percent of its federal income tax
34 liability under Chapter 1 of the Internal Revenue Code for the same taxable year
35 for which the Missouri return is being filed after reduction for all credits thereon,
36 except the credit for payments of federal estimated tax, the credit for the
37 overpayment of any federal tax, and the credits allowed by the Internal Revenue
38 Code by **26 U.S.C. Section 31 [(tax withheld on wages)], 26 U.S.C. Section 27**
39 **[(tax of foreign country and United States possessions)], and 26 U.S.C. Section**
40 **34 [(tax on certain uses of gasoline, special fuels and lubricating oils)].**

41 **[3.] 4.** If a federal income tax liability for a tax year prior to the
42 applicability of sections 143.011 to 143.996 for which he was not previously
43 entitled to a Missouri deduction is later paid or accrued, he may deduct the
44 federal tax in the later year to the extent it would have been deductible if paid
45 or accrued in the prior year.

143.177. 1. This section shall be known and may be cited as the
2 **"Missouri Working Family Tax Credit Act."**

3 **2. For purposes of this section, the following terms mean:**

4 **(1) "Department", the department of revenue;**

5 **(2) "Eligible taxpayer", a resident individual with a filing status**
6 **of single, head of household, widowed, or married filing combined who**
7 **is subject to the tax imposed under chapter 143, excluding withholding**
8 **tax imposed under sections 143.191 to 143.265, and who is allowed a**
9 **federal earned income tax credit under Section 32 of the Internal**
10 **Revenue Code of 1986, as amended;**

11 **(3) "Tax credit", a credit against the tax otherwise due under**
12 **chapter 143, excluding withholding tax imposed under sections 143.191**
13 **to 143.265.**

14 **3. (1) For all tax years beginning on or after January 1, 2019, an**
15 **eligible taxpayer shall be allowed a tax credit in the amount provided**
16 **in subdivision (2) of this subsection. The tax credit allowed by this**
17 **section shall be claimed by such taxpayer at the time such taxpayer**
18 **files a return and shall be applied against the income tax liability**
19 **imposed by chapter 143 after reduction for all other credits allowed**

20 thereon. If the amount of the credit exceeds the tax liability, the
21 difference shall not be refunded to the taxpayer and shall not be
22 carried forward to any subsequent tax year.

23 (2) (a) For the tax year beginning on or after January 1, 2019 the
24 tax credit provided under this section shall be equal to ten percent of
25 the amount such taxpayer would receive under the federal earned
26 income tax credit;

27 (b) For all tax years beginning on or after January 1, 2020, the
28 tax credit provided under this section shall be equal to twenty percent
29 of the amount such taxpayer would receive under the federal earned
30 income tax credit.

31 4. Notwithstanding the provisions of section 32.057 to the
32 contrary, the department shall determine whether any taxpayer filing
33 a report or return with the department who did not apply for the credit
34 authorized under this section may qualify for the credit and, if so
35 determines a taxpayer may qualify for the credit, shall notify such
36 taxpayer of his or her potential eligibility. In making a determination
37 of eligibility under this section, the department shall use any
38 appropriate and available data including, but not limited to, data
39 available from the Internal Revenue Service, the U.S. Department of
40 Treasury, and state income tax returns from previous tax years.

41 5. The department shall prepare an annual report containing
42 statistical information regarding the tax credits issued under this
43 section for the previous tax year, including the total amount of revenue
44 expended, the number of credits claimed, and the average value of the
45 credits issued to taxpayers whose earned income falls within various
46 income ranges determined by the department.

47 6. The director of the department may promulgate rules and
48 regulations to administer the provisions of this section. Any rule or
49 portion of a rule, as that term is defined in section 536.010, that is
50 created under the authority delegated in this section shall become
51 effective only if it complies with and is subject to all of the provisions
52 of chapter 536, and, if applicable, section 536.028. This section and
53 chapter 536 are nonseverable, and if any of the powers vested with the
54 general assembly pursuant to chapter 536 to review, to delay the
55 effective date, or to disapprove and annul a rule are subsequently held
56 unconstitutional, then the grant of rulemaking authority and any rule

57 **proposed or adopted after August 28, 2018, shall be invalid and void.**

58 **7. Tax credits authorized under this section are not subject to**
59 **the requirements of sections 135.800 to 135.830.**

60 **8. Under section 23.253 of the Missouri sunset act:**

61 **(1) The program authorized under this section shall**
62 **automatically sunset on December thirty-first six years after the**
63 **effective date of this section unless reauthorized by an act of the**
64 **general assembly;**

65 **(2) If such program is reauthorized, the program authorized**
66 **under this section shall automatically sunset on December thirty-first**
67 **twelve years after the effective date of the reauthorization of this**
68 **section; and**

69 **(3) This section shall terminate on September first of the**
70 **calendar year immediately following the calendar year in which the**
71 **program authorized under this section is sunset.**

Section B. The repeal and reenactment of sections 143.011, 143.022,
2 143.151, 143.161, and 143.171 of this act shall become effective January 1, 2019.

Section C. The enactment of section 143.177 shall become effective only
2 upon the Supreme Court of the United States rendering a decision, a law is
3 passed by the federal government, or the Constitution of the United States is
4 amended which enables the state of Missouri to require out-of-state sellers with
5 no physical presence in the state to collect and remit state and local sales taxes
6 and the director of the department of revenue notifies the general assembly that
7 the department is prepared to enforce such collection of taxes.

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