APPENDIX III
Individual Income Tax Expenditures

A. Federal and Missouri Exclusions from Gross Income
Exclusions consist of specific sources of income which are not included in gross or total income. Also included in this category are payments-in-kind (e.g., meals and lodging), employer-paid fringe benefits and accrued interest.

A.01 Benefits and Allowances to Armed Forces Personnel
Internal Revenue Code, Sections 112 and 113, Income Tax Regulation 1.61-2; Missouri Statutes, Section 143.121.1
Definition
The housing and meals provided military personnel, either in cash or in kind, are excluded from income subject to tax. Members of the armed forces who receive combat pay may exclude it from federal gross income. Mustering-out payments for service in the armed forces is also excluded. Source: OMB

A.02 Veterans’ Benefits Administered by the Veterans Administration
Internal Revenue Code, Section 3101(d); Missouri Statutes, Section 143.121.1
Definition
All compensation due to death or disability and pensions paid by the Veterans Administration are excluded from taxable income. GI bill, as well as other veterans’ readjustment and education benefits, are excluded. These benefits include:
1. Compensation for service-connected disability or death.
2. Pensions for non-service-connected disability or death.
3. Vocational rehabilitation, education, and training assistance (G.I. Bill benefits). Source: OMB

A.03 Military Disability Pensions
Internal Revenue Code, Sections 104(a)(4), 104(b); Missouri Statutes, Section 143.121.1
Definition
Federal gross income does not include amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the armed forces of any country or in the Coast and Geodetic Survey or the Public Health Service, or as a disability annuity payable under the provisions of Section 808 of the Foreign Service Act of 1980. Most of the military pension income received by current retired veterans is excluded from their income subject to tax.
Source: OMB

A.04 Railroad Retirement Benefits
Internal Revenue Code, Section 86; Missouri Statutes, Section 143.121.1
Definition
For federal income tax purposes, railroad retirement benefits are includible in federal gross income similar to the method described for social security in item A.05 (Social Security Benefits). Federal law specifically excludes from state and local income tax the benefits paid under the Railroad Retirement Act. Source: OMB

A.05 Social Security Benefits
Internal Revenue Code, Section 86; Missouri Statutes, Section 143.121.1
Definition
Social security benefits that exceed the beneficiary’s contributions out of taxed income are deferred employee compensation and the deferral of tax on that compensation is a tax expenditure. These additional retirement benefits are paid for partly by employers’ contributions that were not included in employees’ taxable compensation. Up to one-half of any recipient’s social security benefits and tier 1 railroad retirement benefits are included in the income tax base if a recipient’s “modified adjusted gross income” plus one-half of his or her social security and railroad retirement benefits exceed a certain base amount: $32,000 for those filing joint tax returns; $25,000 for single persons; and zero for those married filing separately if they did not live apart from their spouse for the entire year. Modified adjusted gross income is adjusted gross income plus foreign or U.S. possession income excluded from adjusted gross income, and tax-exempt interest excluded from adjusted gross income. If the modified AGI exceeds the specified base amount, either one-half of the excess or one-half of the social security or railroad retirement benefits is included in income subject to tax, whichever is less. This limits the tax expenditure to the portion of the benefit which is still excluded. Benefit payments from the Social Security Trust Fund, for disability and for dependents and survivors, are excluded from the beneficiaries gross incomes and thus give rise to tax expenditures. Source: OMB
A.06 Scholarships and Fellowships
Internal Revenue Code, Sections 74(b), 101(b), 102, 117; Missouri Statutes, Section 143.121.1
Definition
Scholarships and fellowships are not excluded from taxable income to the extent they exceed tuition and course-related expenses of the grantee. From a strictly economic point of view, scholarships and fellowships are either gifts not conditioned on the performance of services, or they are rebates of educational costs. Under the normal tax standard, gift-like transfers of government funds (and many scholarships are derived directly or indirectly from government funding) are included in gross income. Source: OMB

A.07 Workmen’s Compensation Benefits
Internal Revenue Code, Section 104(a)(1); Missouri Statutes, Section 143.121.1
Definition
Except in the case of amounts attributable to deductions allowed under Section 213 (relating to medical expenses) federal gross income does not include amounts received under Workmen’s Compensation Acts as compensation for personal injuries or sickness. The three types of workmen’s compensation benefits are: (1) payments for medical or rehabilitation expenses; (2) compensation for permanent disabilities; and (3) replacement of lost wages. Items 1 and 2 are not considered income; item 3 is reflected in the expenditure estimate. Workmen’s compensation provides payments to disabled workers. These benefits, although income to the recipients, are a tax preference because they are not subject to income tax. Source: OMB

A.07b Exclusion, Workers Compensation Insurance Payments
Internal Revenue Code, Section 104(a); Missouri Statutes, Section 143.121.1
Definition
Workers’ compensation insurance premiums are paid by employers and deducted as a business expense, but the premiums are not included in employee gross income. No longer included in OMB Report.

A.08 Cash Public Assistance and Income Maintenance Payments
Numerous Internal Revenue Code Sections; Missouri Statutes, Section 143.121.1
Definition
This expenditure measures the fiscal impact for the exclusion from federal gross income of public assistance programs which award cash benefits. Included in this category are all disability income programs, all government medical payment programs, all income maintenance programs, unemployment insurance benefit payments, veterans benefit payments and government transfers to nonprofits. Source: BEA

A.09 Interest on State and Local General Obligation Bonds
Internal Revenue Code, Section 103; Missouri Statutes, Section 143.121.2
Definition
Interest on state and local government debt, issued to finance government activities, is excluded from Federal taxation. Most of these bonds are owned by individuals, but a substantial proportion is also held by commercial banks as well as casualty and property insurance companies. As a result of the tax exemption, state and local governments can sell debt obligations at a lower interest cost than would be possible if such interest were subject to tax. The use of tax-exempt state and local government securities to finance student loans, private businesses, private nonprofit organizations, and housing is classified elsewhere. Only the excluded interest on bonds for public purposes, such as schools, roads, and sewers, is included in this functional tax expenditure. Missouri, like most states, disallows this exclusion if the interest is derived from bonds of non-Missouri governmental units. Section 143.121.2, RSMo, requires taxpayers to add back interest from other states’ obligations which was excluded from federal gross income. See item A.10 (Interest on Non-Guaranteed State and Local Debt) for an additional bond interest exclusion. Source: OMB

A.10 Interest on Non-Guaranteed State and Local Debt
Internal Revenue Code, Sections 103, 135, 141, 146, 147, 150 and 501; Missouri Statutes, Section 143.121.1
Definition
Generally, interest income received or accrued by a taxpayer during the year is included in federal gross income. Certain revenue and industrial development bonds are exempt.

Missouri, like most states, disallows this exclusion if the interest is derived from bonds on non-Missouri governmental units. Section 143.121.2, RSMo, requires taxpayers to add back interest from other states’ obligations which was excluded from federal gross income.
There are also limits imposed on the amount of tax-exempt state and local government bonds that can be issued to fund private activity. The annual limit on the aggregate volume of student loans and most industrial development bonds was initially set at the greater of $150 for each resident of a state or $200 million if that was larger. The Tax Reform Act of 1986 combined the prior law volume cap for single-family mortgage revenue bonds and multifamily rental housing bonds with the cap for student loans and IDBs. The cap was set at $50 per capita or a minimum of $150 million for each state. Source: OMB

A.10a **Small Issue Industrial Development Bonds**

**Definition**
The interest on small issue industrial development bonds (IDBs) issued by state and local governments to finance private business property is excluded from income subject to tax. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. Small issue IDBs are generally limited only to the face amount of the bond issue, although certain facilities, such as recreation or entertainment facilities, cannot be so financed. The tax exemption of small issue bonds expired on Dec. 31, 1986, except for small issue IDBs exclusively issued to finance manufacturing facilities for which the tax exemption is scheduled to expire on Dec. 31, 1989. The budget cost of these bonds continues as long as they are outstanding. The Revenue Reconciliation Act of 1990 extended the authority to issue these through 1991.

A.10b **Bonds for Pollution Control and Waste Disposal**

**Definition**
Interest on state and local government debt issued to finance private pollution control and waste disposal facilities was excludable from income subject to tax. This authorization was repealed for pollution control equipment and a cap placed on the amount of debt that could be issued for waste disposal facilities by the Tax Reform Act of 1986.

A.10c **Mortgage Housing Bonds**

**Definition**
Interest on all mortgage revenue bonds, issued before Jan. 1, 1990 by state and local governments, is exempt from taxation. Proceeds are used to finance homes purchased by first time buyers with low to moderate incomes of dwellings with prices under 90 percent of the average area purchase price. The annual volume of mortgage revenue bonds is restricted to state-by-state ceilings. The Tax Reform Act of 1986 included mortgage revenue bonds under the new unified volume cap which also covers student loan bonds and IDBs, as noted below. Mortgage revenue bonds have been found to be relatively inefficient in providing subsidies to first time home buyers. States, therefore, have been authorized, through Dec. 31, 1989, to issue mortgage credit certificates (MCCs) in lieu of qualified mortgage bonds. MCCs entitle home buyers to income tax credits for a specified percentage of interest on qualified mortgage loans. In this way the entire amount of the subsidy flows directly to the home buyer without being partly diverted to financial middlemen or bondholders. The aggregate annual amount of MCCs a state may substitute for mortgage bonds may not exceed 25 percent of the amount of qualified mortgage bonds that it could have issued under its annual ceiling.

A.10d **Rental Housing Bonds**

**Definition**
Prior to 1987, state and local government issues of IDBs were restricted to multifamily rental housing projects in which 20 percent (15 percent in targeted areas) of the units were reserved for families whose income did not exceed 80 percent of the area’s median income. The Tax Reform Act of 1986 increased these percentages while lowering the defined income limits. The set-aside is now 20 percent for families with incomes of no more than 50 percent rather than the former 80 percent of the area median income; or 40 percent for families with incomes of no more than 60 percent of the area median income. Other tax-exempt bonds for multifamily rental projects are generally issued with the requirement that all tenants must be low or moderate income families.

A.10e **Bonds for Energy Facilities**

**Definition**
Tax exempt bond financing for small scale hydroelectric generating facilities expired at the end of 1985. If an application for the licensing of such a facility had been filed with the Federal Energy Regulatory Commission (FERC) before Jan. 1, 1986, tax exempt financing was available through 1988. Another provision authorizing tax exempt financing for steam generating or alcohol production facilities was repealed by the Tax Reform Act of 1986. The budget cost of this type of tax exempt financing will continue, however, until the bonds are retired.
A.10f  **Bonds for Mass-Commuting Vehicles**
Definition
Until expiration on Dec. 31, 1984, state and local governments were allowed to issue tax-exempt obligations to finance the purchase of mass transit commuting vehicles for lease to government transit agencies. There will be continued budget effects as long as such bonds are outstanding.

A.10g  **Bonds for Airports and Similar Facilities**
Definition
Until passage of the Tax Reform Act of 1986, the interest on IDB’s issued by state and local governments to finance airports, docks, wharves, and sports and convention facilities was exempt from tax. The Act repealed authorization to issue such bonds to finance sports and convention facilities, as well as privately owned airports, docks, and wharves. Government-owned airports, docks and wharves, may continue to be financed with tax-exempt bond issues, and these bonds are not covered by a value cap. This provision was extended by the Technical and Miscellaneous Revenue Act of 1988 to include bond issues to finance high speed rail facilities that need not be government owned.

A.10h  **Bonds for Educational Purposes**
Definition
Interest on state and local government debt issued to finance student loans or the construction of facilities used by private nonprofit educational institutions is excluded from income subject to tax. The Treasury Department has exclusive jurisdiction over determination by the executive branch as to whether interest on any such obligation is exempt from tax.

A.10i  **U.S. Savings Bonds for Education**
Definition
The Technical and Miscellaneous Revenue Act of 1988 provides that interest on U.S. savings bonds, issued after Dec. 31, 1989, may be excluded from tax if the bonds, plus accrued interest, are transferred to an educational institution as payment for educational expenses. The exclusion from tax is phased out for joint returns with adjusted gross incomes of $60,000 to $90,000 and over; $40,000 to $50,000 for single and head of household returns.

A.10j  **Bonds for Hospital Construction**
Definition
Interest earned on state and local government debt issued to finance hospital construction is excluded from income subject to tax.

A.10k  **Mortgage Bonds for Veterans**
Definition
The interest earned on general obligation bonds issued by state and local governments to finance housing for veterans is excluded from taxable income. There are, however, some restrictions on veterans mortgage revenue bonds. Their issuance is limited to five preexisting state programs and to amounts based upon previous volume levels for the period beginning on Jan. 1, 1979 and ending on June 22, 1984. Furthermore, future issues are limited to veterans who served on active duty before 1977.

A.11  **Employer Provided Benefits**
All employee compensation is subject to tax unless the tax code contains a specific exclusion for the income. There are specific exclusions for the following employer-provided benefits: coverage under accident and health plans, accident and disability insurance, group term life insurance, educational assistance, transportation benefits (parking, van pools, and transit passes), child care, meals and lodging furnished for the convenience of the employer, employee awards, and other miscellaneous fringe benefits (e.g., employee discounts, services provided to employees at no additional cost to employers, tuition reductions, and de minimis fringe benefits). Each of these exclusions is classified as a tax expenditure in this report.

A.11a  **Employees’ Meals and Lodging**
Internal Revenue Code, Sections 119 and 107; Missouri Statutes, Sections 143.121.1 and 143.431.1
Definition
Employees may exclude from federal gross income the value of meals and lodging provided in kind by their employers. In order to qualify for the exclusion, services must be provided for the employer’s convenience and meals must be furnished on the employer’s premises. Source: OMB
A.11b Miscellaneous Fringe Benefits
Internal Revenue Ruling 132, 274j; Missouri Statutes, Sections 143.121.1 and 143.431.1
Definition
Miscellaneous fringe benefits are excluded from employees’ federal gross income tax as defined in the tax code. These include employee awards, employee discounts, services provided to employees at no additional cost to employers, tuition reductions, and de minimis fringe benefits. Source: JCT

A.11c Employee Discounts
Internal Revenue Code, Section 132; Missouri Statutes, Section 143.121.1
Definition
Discounts provided by employers to their employees on the purchase of employers goods or services are excluded from the employee’s federal gross income to the extent the discount does not exceed the employer’s gross profit percentage.

A.11d Employer Educational Expenditures
Internal Revenue Code, Section 127; Missouri Statutes, Sections 143.121.1 and 143.431.1
Definition
Since Jan. 1, 1979, employees may exclude from federal gross income reimbursement for job related educational expenses where the course or class maintains or improves skills required in the employee’s trade or business or is expressly required by the employer or by law as a condition of employment. The limit is $5,250 per year. As of 2002 this includes undergraduate and graduate-level courses. Educational institutions often provide partial or full tuition reductions to their employees. If the reduction is part of a qualified tuition reduction program, the employee may exclude the value of the reduction from income. Source: OMB

A.11e Employer-Provided Child Care
Internal Revenue Code, Section 129; Missouri Statutes, Sections 143.121.1 and 143.431.1
Definition
In general, the value of employer-provided child or dependent care, not exceeding the earned income of the employee, is excluded from federal gross income. The limit is $5,000 per year. Also excluded from income is the reimbursement by the employer to the employee for all or part of the expenses paid for child or dependent care, unless the taxpayer is eligible for and claims the child and dependent care credit. Source: OMB

A.11f Value of Employer-Provided Commuter Vehicle
Internal Revenue Code, Section 124; Missouri Statutes, Sections 143.121.1 and 143.431.1
Definition
The value of qualified transportation (in the employers commuter vehicle) provided between the employee’s residence and the place of employment is excluded from the employees federal gross income. The exclusion is available if the transportation is provided under a written plan and the value of the transportation is in addition to, not in lieu of, any compensation otherwise payable to the employee. Note: 12/2003 This appears to be part of A.11n in OMB report.

A.11g Prepaid Legal Services Plan
Internal Revenue Code, Sections 120; Missouri Statutes, Section 143.121.1
Definition
If the prepaid legal plan by an employer meets the requirements for a qualified group legal service plan, an employee receiving such benefits may exclude from federal gross income the value of legal service or benefits received. This exclusion expired for tax years ending after Dec. 31, 1988. For tax years ending after 1987, however, the exclusion is limited to an annual premium value of $70. The Revenue Reconciliation Act of 1990 extended this expenditure through 1992. The limitation on the exclusion for tax years beginning in 1990 has been repealed.

A.11h Employer Contribution to Qualified Pension and Profit-Sharing Plans
Internal Revenue Code, Sections 401-407, 410 and 415; Missouri Statutes, Section 143.121.1
Definition
Contributions by an employer to a qualified employee’s plan is excluded from federal gross income. A qualified plan may fall into two categories: (1) a defined contribution plan, or (2) a defined benefit plan. Earnings from these plans are also excluded from the employee’s federal gross income. (In addition, the employer gets a cur-
rent deduction for allowable contributions under a qualified plan.) However, when a disbursement from such a plan is received by the taxpayer, such disbursement is included in federal gross income. Thus, the expenditure is more accurately described as a deferral and not an exclusion. Source: OMB

A.11i Employer Contributions for Medical Insurance
Internal Revenue Code, Sections 105 and 106; Missouri Statutes, Section 143.121.1
Definition
An employer’s contribution made to accident or health plans for medical care is excluded from an employee’s federal gross income. Employees may also exclude payments received from an employer financed health care plan for actual medical expense. This payment exclusion also applies to medical care received by the employee’s spouse and dependent. A self-employed person is not an employee for the purpose of this exclusion. Source: OMB

A.11j Employer-Paid Accident and Disability Premiums
Internal Revenue Code, Section 106; Missouri Statutes, Section 143.121.1
Definition
Contributions by an employer to accident or health plans for compensation to an employee for personal injury and sickness is excluded from federal gross income. Employees who actually pay the premium may also exclude from federal gross income the reimbursements made directly to them by such plans. Source: OMB

A.11l Employer Contributions to Supplemental Unemployment Insurance Plans
Internal Revenue Code, Section 162; Missouri Statutes, Section 143.121.1
Definition
Compensation received under a workers’ compensation act for personal injury or sickness is excluded from federal gross income. Benefits received under a suit or settlement of a claim on account of personal injuries or sickness, and amounts received by a taxpayer under a policy of accident and health insurance are exempt from tax. Source: OMB

A.11m Employer Contributions to Medicare
Missouri Statutes, Section 143.121.1
Definition
The employer’s payment of 1.45 percent of employees’ wages (up to $48,000 in 1989) into the Hospitalization Trust Fund, which finances Medicare benefits, is not included in employees’ reportable compensation. The exclusion from employee income of such in-kind compensation constitutes a tax expenditure. Source: OMB

A.11n Employer-Provided Transit Passes
Internal Revenue Code, Section 132(f); Missouri Statutes, Section 143.121.1
Definition
Transit passes, tokens, fare cards and van pool expenses provided by an employer to defray an employee’s commuting costs are excludable from the employee’s income as a de minimis fringe benefit, if the total value of the benefit does not exceed $100 per month (in 2002 dollars), indexed in $5 increments. Source: OMB

A.11o Reimbursed Employee Parking Expenses
Internal Revenue Code, Section 132(f); Missouri Statutes, Section 143.121.1
Definition
Parking at or near an employer’s business premises that is paid for by the employer is excludable from the income of the employee as a working condition fringe benefit. The maximum amount of the parking exclusion is $185 per month (in 2002 dollars), indexed in $5 increments. The tax expenditure estimate does not include parking at facilities owned by the employer. Source: OMB

A.12 Income Earned Abroad by U.S. Citizens and Employer-Paid Foreign Housing Costs
Internal Revenue Code, Sections 911 and 912; Missouri Statutes, 143.121.1
Definition
U.S. citizens who lived abroad, worked in the private sector, and satisfied a foreign residency requirement (330 or 365 days abroad) in 2002 may exclude up to $80,000 in foreign earned income from U.S. taxes. In addition, if these taxpayers receive a specific allowance for foreign housing from their employers, they may also exclude the value of that allowance. If they do not receive a specific allowance for housing expenses, they may deduct against their U.S. taxes that portion of such expenses that exceeds one-sixth the salary of a civil servant at grade GS-14, step 1 ($67,765 in 2002). Source: OMB
A.13 **Individual Retirement Accounts**

Internal Revenue Code, Sections 219 and 408; Missouri Statutes, Section 143.121.1

**Definition**

Taxpayers who are not active participants in an employer-maintained retirement plan may deduct from gross income contributions to an Individual Retirement Account up to a maximum of $3,000 regardless of income. Taxpayers who are an active participant in a qualified plan may also take this deduction if their adjusted gross income is less than $34,000 in the case of single taxpayers or $54,000 for individuals filing joint returns. Single taxpayers with adjusted gross incomes between $34,000 and $44,000 or individual taxpayers filing joint returns with incomes between $54,000 and $64,000 may deduct a prorated amount of their contribution. No deduction is allowed for single taxpayers with adjusted gross incomes over $44,000 or individuals filing joint returns with adjusted gross incomes in excess of $64,000. This was updated for 2002. Source: OMB

A.14 **Keogh Plans**

Internal Revenue Code, Sections 219, 220, 401-405 and 408-415; Missouri Statutes, Section 143.121.1

**Definition**

Self-employed taxpayers may take a deduction from federal gross income for contributions made to Keogh retirement plans of the lesser of $40,000 or 25 percent of the taxpayer’s compensation for the year as of 2002. Source: OMB

A.15 **Life Insurance**

Internal Revenue Code, Section 101(a); Missouri Statutes, Section 143.121.1

**Definition**

Life insurance policies, other than term policies, generally contain a savings element. Savings in the form of policyholder reserves are accumulated from premium payments and interest is earned on the reserves. Such interest income is not taxed as it accrues nor when received by beneficiaries upon the death of the insured. Source: OMB

A.16 **Certain Agricultural Cost-Sharing Payments**

Internal Revenue Code, Section 126; Missouri Statutes, Section 143.121.1

**Definition**

Farmers may elect to exclude from federal gross income payments received from federal or state governments intended to help defray the cost of certain improvements made to the land. Qualifying payments include those made to: (1) conserve soil and water resources, (2) protect or restore the environment, (3) improve forests, and (4) provide a habitat for wildlife. Consistent with such exclusion, no current deduction, depreciation, amortization, depletion, or investment credit may be claimed with respect to the excludable amounts. The tax expenditure represents the revenue impact of the exclusion over the alternative provision if improvements were capitalized. This has a positive expenditure of less than $50 million in 2003. Source: JCT

A.17a **Deferral of Capital Gains**

**Definition**

A taxpayer may exclude from federal gross income the gains received from the sale of his principal residence, provided he buys a replacement residence of equal or greater value within two years before or after the sale. There are two distinct components to this tax expenditure: a deferral and an exclusion. A deferral occurs because eventually the capital gain from the terminal sale (when no replacement purchase is made) will be subject to income taxation. This provision ended July 28, 1997.

A.17b **Exclusion of Capital Gains on Sales by Owners Aged 55 or Older**

**Definition**

There are two primary ways this deferral may be converted into a permanent exclusion. One way, not dealt with here, occurs when the owner of the home dies. [Estimates for the exclusion of capital gains at death are provided in item A.18 (Capital Gains at Death)]. The second manner is when a taxpayer 55 years of age or older sells his principal residence and takes a once-in-a-lifetime exclusion of up to $125,000 of gain realized from the sale. Capital gains which were actually realized from previous home sales but deferred for tax purposes may thus be totally excluded from taxable income. Because the deferrals and this exclusion are related, they are presented here together with separate estimates shown for each portion (item A.18 Capital Gains at Death). The fiscal impact estimates for both the deferral and the exclusion portion of this item measure the difference between current treatment and what would be the case if 100 percent of the gain from homes sales were included in taxable income. This provision ended July 28, 1997.
A.17c Capital Gains on Home Sales
Internal Revenue Code 121; Missouri Statutes, Section 143.121.1
Definition
A taxpayer may exclude from tax up to $500,000 if filing jointly or $250,000 if single from the sale of a principal residence. Gross income shall not include gain from the sale or exchange of property if, during the 5-year period ending on the date of the sale or exchange, such property has been owned and used by the taxpayer as the taxpayer's principal residence for periods aggregating 2 years or more. This exclusion applies to homes sold after May 6, 1997. Source: OMB

A.18 Capital Gains at Death
Internal Revenue Code, Sections 1001, 1002, 1014, 1015, 1023, 1221 and 1222; Missouri Statutes, Section 143.121.1
Definition
The assets in the estate of a person that has died are valued at their market prices. After payment of any estate tax that may be due, and after covering funeral and administrative expenses, heirs inherit what remains of the estate. The heirs’ basis in the inherited assets is the valuation used for estate tax purposes. If the inherited assets appreciated during the decedent’s lifetime, the income and estate tax laws permit a step-up in the heirs’ basis to the valuation used for estate tax purposes. This upward reevaluation of the transferred assets is allowed without payment of the tax that had been deferred by the decedent with respect to the accrual of that appreciation. In effect, the deferred tax on the gain is forgiven. The resulting higher estate tax base is taxable at generally lower tax rates of the heirs. The net forgiveness of tax, itself a tax-exempt transfer, benefits the testator and his heirs, provided the testator was willing to hold appreciated assets. Source: OMB

A.19 Carry-Over Basis of Capital Gains on Gifts
Internal Revenue Code, Section 1015; Missouri Statutes, Section 143.121.1
Definition
When a gift is made the market value of the property enters the transferor’s lifetime transfer base. With the gift, the transferred property carries to the donee the donor’s basis—the cost that was incurred when the property was first acquired. The donee assumes a tax obligation equal to the donee’s tax rate times the difference between the market value of the gift and the donor’s basis. The carry-over of the donor’s basis allows a continued deferral of unrealized capital gains. This creates a tax preference because it is an exception to the reference tax law. The preference becomes even more valuable whenever the donee’s income tax rate is lower than the donor’s. An amount of the donor’s deferred tax is then effectively forgiven. Source: OMB

A.20 Income from the Discharge of Indebtedness
Internal Revenue Code, Sections 108 and 1017; Missouri Statutes, Section 143.121.1
Definition
Section 108 of the Internal Revenue Code provides that gain from the cancellation of a debt is taxable to the debtor. However, an exclusion is allowed if the discharge of debt occurs when the taxpayer is insolvent (i.e., liabilities exceed market value of total assets) and the following three criteria are met:
1. The person to whom the money is owed voluntarily agrees to forgive the debt;
2. The debtor can prove that he or she was insolvent at the time the debt was forgiven; and
3. The person to whom the money is owed does not claim the bad debt loss on his or her tax return.

When these criteria are met, the taxpayer may exclude all of the income gained up to, but not exceeding, the amount by which he or she was insolvent.

A.21 Automobile Owners’ Car Pool Receipts
Internal Revenue Ruling 55-555; Missouri Statutes, Section 143.121.1
Definition
An automobile owner operating a car pool is allowed an exclusion from federal gross income equal to the amount of money received as reimbursements or fares from car pool riders. The tax expenditure is the money received that exceeds the cost incurred by the car pool operator.

A.22 Parsonage Allowance
Internal Revenue Code, Section 107; Missouri Statutes, Section 143.121.1
Definition
The rental value of a dwelling furnished to a minister of the gospel is exempt from tax, as is a rental allowance to the extent that the allowance is used to rent or provide a home. This includes the portion of a retired minister’s pension designated as a rental allowance by the national governing body of a religious denomination having complete control over the retirement fund. The exemption also applies to the rental value of a residence furnished to a retired minister (but not his widow). A minister is entitled to deduct mortgage interest and real property taxes paid on a personal residence even if the amounts expended are allocable to a rental allowance that is excludable from the minister’s gross income. Source: OMB

A.23 Special Business and Accounting Adjustments
These expenditures are the result of special accounting provisions granted to businesses. They consist primarily of special rules for dealing with the expensing, amortization and depreciation of certain business expenses.

A.23a Seven-Year Amortization for Reforestation Expenditures
Internal Revenue Code, Sections 48 and 194; Missouri Statutes, Section 143.121.1
Definition
An amortization deduction is allowed for reforestation expenditures incurred in connection with the commercial production of timber. The deduction is limited to a maximum of $10,000 per year over a seven-year period. Items qualifying as an expenditure are the cost of seed, seedlings, site preparation, labor, and machinery.
Amount not reported due to MO impact of less than $50,000 or expiration. Source: OMB

A.23b Timber-Growing Costs
Internal Revenue Code, Sections 48 and 194; Missouri Statutes, Section 143.121.1
Definition
The Tax Reform Act of 1986 codified and made uniform the definition of the costs that must be capitalized when goods are produced for inventory for use in one’s own trade or business, or under contract to another party. When the production takes more than two years, the producer is required to capitalize interest he might have paid to the extent that the production costs he had incurred could have been used to retire debt. These new cost accounting rules are effective with respect to all such production begun after Dec. 31, 1986. However, timber production was specifically exempted from these “multi-period” cost capitalization rules. The new special benefit thus derived from this taxable income deferral is especially important in forestry due to the extremely long period of production. Source: OMB

A.23c Excess of Percentage Over Cost Depletion for Oil, Gas and Nonfuel Minerals
Internal Revenue Code, Sections 613 and 613A; Missouri Statutes 143.121.1
Definition
Fuel mineral producers are generally allowed to take percentage depletion deductions rather than cost depletion as provided by the reference and normal tax rules. Under cost depletion, outlays not recovered immediately through expensing are deducted over the productive life of the property, much as other businesses take deductions for the depreciation of the capital goods they use. Unlike depreciation or cost depletion allowances, however, percentage depletion deductions are not limited to the cost of the investment. Taxpayers instead deduct a percentage of gross income from mineral production at rates of 22 percent for uranium, 15 percent for oil, gas and oil shale, and 10 percent for coal. The deduction, however, is limited to 50 percent of net income from the property and also to 65 percent of total taxable income in the case of oil and gas. Percentage depletion for oil and natural gas is available only for limited quantities of output produced by independent producers and royalty owners. Production from geothermal deposits is eligible for percentage depletion at the same rate as allowed for oil and gas, but with no limit on output and no limitation with respect to qualified producers.

Most nonfuel mineral extractors also make use of percentage depletion rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulphur down to 5 percent for sand and gravel. A more detailed discussion is provided in the energy function.

Although owners of working interests in oil and gas properties are subject to the alternative minimum tax, they are exempted from the “passive income” limitations. A working interest is one that required the holder to manage, on behalf of himself and all other owners of interest, the development of wells and to incur all the costs of their operation. Exemption from the passive income limitations means that the working interest holder may, in all cases, aggregate negative taxable income from such interests with his incomes from all other sources. Thus, he will be relieved of the minimum tax rules limit on tax deferrals. Source: OMB
A.23d  **Expensing of Certain Capital Outlays and Special Cash Accounting Rules for Farmers**

**Internal Revenue Code, Sections 162, 175, 180, 182, 278, 447, 464, 465, 704(d); Income Tax Regulations 1.61-4.1, 162-12 and 1.471-6; Missouri Statutes, Section 143.121.1**

**Definition**

This deduction includes special treatment for soil and water conservation, purchases of fertilizer, clearing land, and purchasing planting, cultivating, maintaining, and developing citrus or almond groves. Farming corporations excused from using the accrual method of accounting, usually required when the sale of products is a material factor of the business, are:

1. S corporations,
2. the one-family corporation,
3. the two-family corporation,
4. the three-family corporation, and
5. any corporation with gross annual receipts not exceeding $1 million.

Farmers were exempted from application of the uniform cost capitalization rules enacted in 1986 with respect to the production of livestock and crops with a production period of less than two years. The Technical and Miscellaneous Revenue Act of 1988 extended the exemption to all livestock. Additionally, farmers engaged in establishing orchards, the construction of farm facilities for their own use, or the production of any goods for sale with a production period of two years or more may elect not to capitalize costs. If they make such an election, they must use straight-line depreciation allowances for all depreciable property they use in farming.

Government payments to farmers are part of their taxable incomes in the year received, as are all other payments for their services. The Technical Corrections and Miscellaneous Revenue Act of 1988 provides a special exception for drought relief payments. The reporting of payments received in one year may be deferred until the following year.

The drought relief payments are not reported due to expiration or an impact of less than $50,000 or expiration.

Source: OMB

A.23e  **Expensing of Research and Development Costs**

**Internal Revenue Code, Section 174; Missouri Statutes, Section 143.121.1**

**Definition**

Taxpayers may claim a deduction for research and experimental expenditures incurred in connection with the taxpayer’s trade or business. The taxpayer may account for these expenditures by electing to deduct costs in the current year, deduct the portion of cost that constitutes current expenses and capitalize the remaining costs and amortize them over a period of at least 60 months, or deduct current expenses and capitalize, without amortization, the remaining costs.

Research and development (R&D) expenditures are commonly referred to as investments because their benefits continue to accrue for several years, when they are successful. The characteristics of research and development, however, are such that it is difficult to identify completed, discrete research and development projects to determine whether the completed project is successful and, if it is successful, what its expected life will be. For these reasons, the statutory provision that these expenditures may be currently deducted (expensed) is considered part of the reference law. Notwithstanding, however, the absence of objective bases for determining whether R&D projects are completed and successful and, if successful, what their economic depreciation pattern might be, the normal tax standard views the expensing of research and development expenditures as the source of a tax expenditure entry. Source: OMB

A.23f  **Expensing of Mineral Exploration and Development Costs**

**Internal Revenue Code, Sections 263(c), 465, 616, 617, 704(d) and 1254; Missouri Statutes, Section 143.121.1**

**Definition**

Certain expenditures for discovering fuel mineral properties may be deducted as current expenses rather than be capitalized and amortized over the productive life of the property. The tax treatment of a number of expenditures in this category departs from both the reference and normal tax rules.

In the case of oil and gas investments, the intangible drilling costs (IDCs) of successful wells, such as wages, the costs of using machinery for grading and drilling, and the cost of unsalvageable materials used in construct-
ing wells, may be expensed. This provision is restricted to successful domestic wells.

Integrated oil companies may currently deduct only 70 percent of such costs and amortize the remaining 30 percent over five years. Other oil producers may deduct 100 percent of their IDCs, but if their IDCs less the amount which could be deducted had the IDCs been capitalized and amortized over ten years exceed 65 percent of the taxpayer’s oil and gas income, the difference is subject to the minimum tax. The exploration and development costs of surface stripping and the construction of shafts and tunnels for other fuel minerals are also partially expensed; 70 percent of these costs may be currently deducted. The remaining 30 percent are deductible over five years.

As is true for fuel minerals, certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.

Source: OMB

A.23g Accelerated Depreciation
Internal Revenue Code, Section 168; Missouri Statutes, Section 143.121.1
Definition
Using the normal tax baseline, the accelerated depreciation allowance gives rise to a tax expenditure when measured relative to economic depreciation. The tax expenditures for accelerated depreciation under the normal law concept have been recalculated by OMB using a baseline depreciation rate and replacement cost indexes from the National Income and Product Accounts. The revised estimates are intended to approximate the degree of acceleration provided by current law over a baseline determined by real, inflation adjusted, economic depreciation. Current law depreciation allowances for machinery and equipment include the benefits of the temporary 30 percent expensing provision. In many years the tax expenditures are negative, indicating that current law's tax depreciation allowances are smaller than those implied by economic depreciation. Source: OMB

A.23h Historic Structures
Internal Revenue Code, Sections 167(n-o) and 191; Missouri Statutes, Section 143.121.1
Definition
Expenditures to preserve and restore historic structures qualified for a 25 percent investment credit prior to 1987. Furthermore, taxpayers were permitted to depreciate 87.5 percent of the investment not withstanding the 25 percent capital grant implicit in the credit. Annual depreciation amounts were determined by the 18 year straight-line method. Beginning in 1987, the credit was reduced to 20 percent and the depreciable basis now must be reduced by the full amount of the credit taken. Annual depreciation deductions must be determined by the straight-line method over 27.5 years for residential structures and 31.5 years otherwise. Source: OMB

A.23i Rehabilitation of Housing
Internal Revenue Code, Section 167(k); Missouri Statutes, Section 143.121.1
Definition
Until it expired on Dec. 31, 1986, taxpayers could elect under certain conditions to amortize rehabilitation expenditures for low and moderate income rental housing over a five-year period lieu of ACRS depreciation. To qualify, rehabilitation expenditures had to range between $3,000 and $20,000 per dwelling unit. The limit per dwelling unit was $40,000 on units which could be purchased by the tenants at a price that limited the profit to the seller. There will be a continued budget effect from qualified expenditures for which the five-year amortization period had been selected. Amount not reported due to MO impact of less than $50,000 or expiration. Source: OMB

A.23j Mining Reclamation Reserves Deduction
Internal Revenue Code, Section 468; Missouri Statutes, Section 143.121.1
Definition
Taxpayers can elect to adopt a uniform method for deducting qualified reclamation and closing costs that are associated with mining and solid waste disposal properties in advance of economic performance. In general, “qualified reclamation and closing costs” include expenses incurred under the Surface Mining Control and Reclamation Act of 1977, the Solid Waste Disposal Act, or any other similar federal, state, or, in the case of waste disposal sites, local law. Taxpayers may revoke an election made with respect to any property; however, a revocation is irreversible.
The election to claim advance reclamation and closing cost deductions may not be made unless the taxpayer establishes a separate reserve account (sinking fund account) for reclamation costs and a separate reserve account for closing costs. The accounts are required for each reserve property for which the election is made. The reserves are used to determine additional deductions for excess amounts paid, and to determine amounts that must be added back to income, each year.

In the case of qualified reclamation costs, the deduction for any tax year is equal to the current reclamation costs allocable to a property disturbed during the tax year. Current reclamation costs are the qualified costs that would be paid if the reclamation activities were performed currently.

The deduction for qualified closing costs for any tax year is equal to the current closing costs allocable to the production from a property during such tax year. Current closing costs are the qualifying costs that would be paid if the closing activities were performed currently. Closing costs are determined on the unit-of-production method for mine sites and on the unit-of-capacity method for solid waste disposal sites. Amount not reported due to MO impact of less than $50,000 or expiration. Source: OMB

A.23k Special Treatment of Agricultural Loans
Internal Revenue Code, Section 108; Missouri Statutes, Section 143.121.1
Definition
Income arising from the discharge of qualified farm indebtedness owed to an unrelated lender, including a federal, state, or local government of agency, or instrumentality thereof, may be excluded from a taxpayer’s if certain requirements are met. The debt must be incurred directly in connection with the operation by the taxpayer of the trade or business of farming. Also, this relief applies only if at least 50 percent of the taxpayer’s aggregate gross receipts for the three tax years preceding the tax year in which the discharge of indebtedness occurs is attributable to the trade or business of farming. The discharge of indebtedness income is forgiven after reduction of tax attributes and basis (including basis in farmland).

In 1986, farmers were also granted special tax treatment by being forgiven the tax liability on certain forgiven debt. Normally, the amount of loan forgiveness is accounted for as a gain (income) of the debtor and he must either report the gain, or reduce his recoverable basis in the property to which the loan relates. If the debtor elects to reduce basis and the amount of forgiveness exceeds his basis in the property, the excess forgiveness is taxable. However, in the case of insolvent (bankrupt) debtors, the amount of loan forgiveness never results in an income tax liability. The act provides that any farmer with forgiven debt will be considered insolvent for tax purposes and thus qualify for income tax forgiveness.
Source: OMB

A.23l Business Start-Up Costs
Internal Revenue Code, Section 195; Missouri Statutes, Section 143.121.1
Definition
When an individual or corporation acquires or otherwise enters into a new business, certain “start-up” expenses, such as the costs of investigating opportunities and legal services, are normally incurred. The taxpayer may elect to amortize these outlays over 60 months although they are similar to other payments he makes for non-depreciable intangible assets that are not recoverable until the business is sold. Source: OMB

A.23m Removing Architectural Barriers to the Handicapped
Internal Revenue Code, Section 190; Missouri Statutes, Section 143.121.1
Definition
The investment cost of making any business facility or vehicle accessible to persons suffering physical or mental disabilities may be currently recovered (deductible), rather than capitalized as part of the taxpayer’s basis in such property, and recovered by subsequent depreciation allowances as is generally required by the reference tax law. Amount not reported due to MO impact of less than $50,000 or expiration. Source: OMB

A.23n Imputed Interest Rules
Internal Revenue Code, Section 1274; Missouri Statutes, Section 143.121.1
Definition
Under reference tax law rules commonly referred to as original issue discount (OID), both the holder and seller of a financial contract, the lender and borrower, respectively, are generally required to report interest earned in the period it accrues, not when the contract payments are made. Moreover, the amount of interest accruable is
determined by the actual price paid for the contract, not by the stated or nominal principal and interest stipulated in the contract. In those instances in which the buyer of property worth more than $250,000 issues his promise to pay in exchange for the property, similar rules apply, including rules to impute an effective interest rate when the value of the property (amount lent by the seller of the property) is not otherwise ascertainable.

Exceptions to the general rules for accounting for interest expense or income include the following: (a) permission for the mortgagor of his personal residence to treat the discount from the nominal principal of his mortgage loan, commonly called "points," as prepaid interest which is deductible in the year paid, not the year accrued; and (b) sellers of farms and small businesses worth less than $1 million, in exchange for the purchaser's debt obligation, are exempted from the OID rules. This is $750,000 more than the $250,000 exemption that the reference tax law generally allows for such transactions.  Source: OMB

A.23o Passive-Loss Real Estate Exemption
Internal Revenue Code, Section 469; Missouri Statutes, Section 143.121.1
Definition
The Tax Reform Act of 1986 disallowed the offset of passive losses against income from other sources. Losses up to $25,000 attributable to certain rental real estate activity, however, were exempted from this rule.  Source: OMB

A.23p Gas and Oil Exception to Passive-Loss Limitation
Internal Revenue Code, Section 469(c); Missouri Statutes, Section 143.121.1
Definition
Although owners of working interests in oil and gas properties are subject to the alternative minimum tax, they are exempted from the "passive income" limitations. A working interest is one that required the holder to manage, on behalf of himself and all other owners of interest, the development of wells and to incur all the costs of their operation. Exemption from the passive income limitations means that the working interest holder may, in all cases, aggregate negative taxable income from such interests with his incomes from all other sources. Thus, he will be relieved of the minimum tax rules limit on tax deferrals. Amount not reported due to MO impact of less than $50,000 or expiration.  Source: OMB

A.23q Income Earned by Voluntary Employee Beneficiary Associations
Internal Revenue Code, Section 512(a); Missouri Statutes, Section 143.121.1
Definition
Generally, the income generated by businesses is subject to income tax. However, the income from business operations conducted by exempt organizations, such as fraternal societies and voluntary employee benefit associations, is exempt from tax. Amount not reported due to MO impact of less than $50,000 or expiration.  Source: OMB

A.24 U.S. Savings Bonds
Internal Revenue Code, Section 61, 135 and 454; Missouri Statutes, Section 143.121.1
Definition
The interest on U.S. savings bonds is not taxable until the bonds are redeemed, thereby deferring tax liability. The deferral is equivalent to an interest-free loan and, therefore, it is a tax expenditure. Source: OMB

A.25 Real-Property Installment Sales
Internal Revenue Code, Section 453; Missouri Statutes, Section 143.121.1
Definition
Prior to 1987, sellers of real and personal property could defer taxable income from “installment sales.” Sellers who extended credit to a purchaser could defer the tax on gains from the sale until the receipt of the loan repayment. The Tax Reform Act of 1986 denied use of the installment method to all sellers of property sold in national markets, such as securities, and to sellers using “revolving credit” arrangements. The Act also installed a “proportionate disallowance rule” which restricted the tax benefit to the amount of credit extended that was financed by the seller’s own equity. Because the installment method was generally available to all sellers before tax reform, the installment method was not considered a tax expenditure.

The Omnibus Budget Reconciliation Act of 1987 repealed the use of the installment method by all dealers in personal and real property, i.e., sellers who regularly hold property for sale or resale. It also repealed the proportionate used in their business. The 1987 Act, however, required payment of interest to the Federal Government
on deferred taxes attributable to the sellers’ total installment obligations in excess of $5 million but including only property with sales prices exceeding $150,000. The payment of a market rate of interest eliminates the benefit of the tax deferral. Thus, the 1987 Act restores pre-tax reform law for nondealers with total installment obligations of less than $5,000,000. The tax benefit for these “small” nondealers is, therefore, a tax expenditure. Source: OMB

A.26 Deferral of Gains from Sale of Broadcasting Facilities—Minorities
Internal Revenue Code, Section 1071; Missouri Statutes, Section 143.121.1
Definition
The voluntary sale of assets generally requires the seller to pay tax on the gain that has accrued over the period of ownership. However, in the case of an involuntary sale, as when an owner’s property must be sold in a condemnation proceeding, or to implement a change in a government’s regulatory policy, the owner is permitted to defer payment of tax, provided the proceeds are reinvested in similar property within a specified period. In 1979, the Federal Communications Commission instituted a policy of encouraging minority group ownership of broadcast licenses. Since that time, the tax laws have been interpreted to permit voluntary sellers of licensed broadcasting facilities to defer payment of capital gains tax when the buyer has been certified as a “minority business,” in effect treating the sale as “involuntary.” Amount not reported due to MO impact of less than $50,000 or expiration. Source: OMB

A.27 Income Treatment of Losses from Small Corporation Stock Sales
Internal Revenue Code, Section 1244; Missouri Statutes, Section 143.121.1
Definition
Up to $100,000 in losses from the sale of such stock may be treated as ordinary losses, and therefore not be subject to the $3,000 annual capital loss write-off limit if the corporation’s capitalization is less than $1 million. Source: OMB

A.27a Capital Gains Exclusion for Small Business Stock
Internal Revenue Code, Section 1244; Missouri Statutes, Section 143.121.1
Definition
An exclusion of 50 percent is provided for capital gains from qualified small business stock held by individuals for more than 5 years. Source: OMB

A.28 Self-Employed Health Insurance Premium
Internal Revenue Code, Section 162; Missouri Statutes, Section 143.121.1
Definition
Self-employed taxpayers may deduct a percentage of their family health insurance premiums. The deductible percentage is 60 percent in 2001, 70 percent in 2002, and 100 percent in 2003 and thereafter. Self-employed persons are not allowed this deduction if their spouses are employees and eligible to participate in an employer-subsidized health plan. Source: OMB

A.29 Self-Employment Tax
Internal Revenue Code, Section 164; Missouri Statutes, Section 143.121.1
Definition
Beginning in 1990, self-employed persons could exclude one-half of their self-employment tax. Source: OMB

A.30 Cancellation of Indebtedness
Internal Revenue Code, Section 108; Missouri Statutes, Section 143.121.1
Definition
Individuals are not required to report the cancellation of certain indebtedness as current income. However, if they do not, it would be included as an adjustment in the basis of the underlying property. Source: OMB

A.31 Employment-Related Moving Expenses
See Appendix III - C.06. Source: OMB

A.32 Medical Savings Account
Internal Revenue Code, Section 106, 220; Missouri Statutes, Section 143.121.1
Definition
Beginning Jan. 1, 1997, qualified taxpayers may deduct annual contributions to a medical savings account. (MSA). Employer contributions to MSAs (except those made through cafeteria plans) for qualified employees
are also excluded from income. An employee may contribute to an MSA in a given year only if the employer does not contribute to the MSA in that year. The maximum annual MSA contribution is 75 percent of the deductible under the high deductible plan for family coverage (65 percent for individual coverage). Earnings from MSAs are excluded from taxable income. Distributions from an MSA for medical expenses are not taxable. Source: OMB

A.33 Expensing of Environmental Remediation Costs
Internal Revenue Code, Section 198; Missouri Statutes, Section 143.121.1
Definition
Taxpayers who clean up hazardous substances at a qualified site may expense the clean-up costs rather than capitalize the costs. This expensing applies to clean-up costs incurred after Aug. 5, 1997 and before Jan. 1, 2001. Source: OMB

A.34 Income Averaging for Farmers
Internal Revenue Code, Section 1301; Missouri Statutes, Section 143.121.1
Definition
Taxpayers may lower their tax liability by averaging, over the prior three-year period, their taxable income from farming. Source: OMB

A.35 Deferral of State Prepaid Tuition Plans
Internal Revenue Code, Section 529; Missouri Statutes, Section 143.121.1
Definition
Taxes on the earnings from state prepaid tuition plans are deferred until the tuition is actually paid, at which time the beneficiary is liable for the taxes. Source: OMB

A.36 Education IRA
Internal Revenue Code, Section 530; Missouri Statutes, Section 143.121.1
Definition
Contributions to an education IRA are not tax-deductible. Investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's tuition and fees. As of 2002, the maximum contribution is $2,000 and the phase-out range for joint filers is $190,000 through $220,000 of modified AGI, double the range of singles. Elementary and secondary school expenses may also be paid tax-free from such accounts. Source: OMB

A.37 Deduction of Interest on Student Loans
Internal Revenue Code, Section 163; Missouri Statutes, Section 143.121.1
Definition
A taxpayer may deduct interest paid on any qualified education loan up to $2,500 during the first five years in which interest payments are required. Only interest paid and due after Dec. 31, 1997 may be deducted. Source: OMB

A.38 Expensing of Certain Small Investments
See Appendix IV - A.09.

A.39 Empowerment Zones
See Appendix IV - A.10.

A.40 Exclusion of Utility Conservation Subsidies
See Appendix IV - A.11.

A.41 401(k) Plans
Internal Revenue Code, Section 401(k), 403 (b)
Individual taxpayers can make tax-preferred contributions to certain types of employer-provided 401(k) plans and 401(k)-type plans like 403(b) plans and the Federal government's Thrift Savings Plan. Source: OMB
A.42 Deduction for Higher Education Expenses.
Internal Revenue Code, Section
Provides a new above-the-line deduction for qualified higher education expenses. The max. annual deduction is $3,000 beginning in 2002 for taxpayers with AGI up to $130,000 on a joint return. Deduction increases to $4,000 in 2004. No deduction is allowed for expenses paid after December 31, 2005. Source: OMB

A.43 Special Deduction for Teacher Expenses
Internal Revenue Code, Section
Educators in both public and private elementary and secondary schools who work at least 900 hours during the school year as a teacher, instructor, counselor, principal or aide, may subtract up to $250 of qualified expenses from their Federal AGI. No deduction is allowed for expenses incurred after December 31, 2003. Source: OMB

A.44 Imputed Net Rental Income On Owner Occupied Housing
Internal Revenue Code, Section
The implicit rental value of home ownership, net of expenses such as mortgage interest and depreciation, is excluded from income. Source: OMB

A.45 Deduction for U.S. Production Activities
Internal Revenue Code, Section
This provision was introduced by the AJCA in 2004 and allows for a deduction equal to a portion of taxable income attributable to domestic production. For taxable years beginning in 2004, 2005, 2006, 2007, and 2008, the amount of the deduction is 5, 5, 5, 6, and 7 percent, respectively. For taxable years beginning after 2008, the amount of the deduction is 9 percent. Source: OMB

A.46 Sale or Exchange of Certain Brownfield Sites
Internal Revenue Code, Section
In general, an organization that is otherwise exempt from federal income tax is taxed on income from any trade or business regularly carried on by the organization that is not substantially related to the organization’s exempt purpose. The AJCA of 2004 created a special exclusion from unrelated business taxable income of the gain or loss from the sale or exchange of certain qualifying brownfield properties. The exclusion applies regardless of whether the property is debt-financed. In order to qualify, a minimum amount of remediation expenditures must be incurred by the organization.

A.47 Discharge of Student Loan Indebtedness
Internal Revenue Code, Section
Certain professionals who perform in underserved areas, and as a consequence get their student loans discharged, may not recognize such discharge as income. This provision was expanded by the AJCA to include health professionals. Source: OMB

A.48 Film & TV Production
Internal Revenue Code, Section
Taxpayers may deduct up to $15 million ($15 million in certain distressed areas) per production expenditures in the year incurred. Excess expenditures may be deducted over three years using the straight line method. This provision was introduced by the AJCA enacted in 2004. Under prior law, production expenses were depreciated. Source: OMB

A.49 Low Sulfur Diesesl Expensing to Cooperative Owners
Internal Revenue Code, Section
This provision was introduced by the Energy Tax Incentives Act of 2005. Taxpayers ay expense certain costs for investments to comply with EPA low sulfur diesel regulations. The deduction 306 ANALYTICAL PERSPEC- TIVES may be passed-through to members of a cooperative if the cooperative makes an election on their tax return. Source: OMB

A.50 Geological & Geophysical Expenditures Over 2 Years
Internal Revenue Code, Section
This provision was introduced by the Energy Tax Incentives Act of 2005. Geological and geophysical amounts incurred in connection with oil and gas exploration in the United States may be amortized over two years. In the case of abandoned property, any remaining basis may no longer be recovered in the year of abandonment of a
property as all basis is recovered over the two-year amortization period.

A.51  **Energy Efficient Commercial Building Property**
Internal Revenue Code, Section
This provision was introduced by the Energy Tax Incentives Act of 2005. A deduction for energy efficient commercial buildings that reduce annual energy and power consumption by 50 percent compared to the American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE) standard is allowed. The provision is effective for property placed in service after December 31, 2005 and prior to January 1, 2008.
Source: OMB

A.52  **Highway Projects & Rail Truck Transfer Facilities**
Internal Revenue Code, Section
This provision provides for $15 billion of tax exempt bond authority to finance qualified highway or surface freight transfer facilities. It was introduced by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy For Users enacted in 2005. The authority to issue these bonds expires on December 31, 2015.
Source: OMB

A.53  **Housing Hurricane Katrina Displaced Individuals**
Internal Revenue Code, Section
This provision, introduced by the Katrina Emergency Tax Relief Act of 2005, provides an additional exemption of $500 for each Hurricane Katrina displaced individual for whom the taxpayer is providing shelter in his or her home, for a maximum additional exemption amount is $2,000. Source: OMB

B.  **Missouri Adjustments**
These are additional exclusions and modifications to adjusted gross income.

B.01  **Pension Income (Other than Social Security or Railroad Retirement Benefits)**
Missouri Statutes, Sections 143.124
Definition
Single taxpayers with gross income less than $25,000 may exclude from Missouri adjusted gross income the amounts of qualified retirement benefits. Taxpayers filing combined returns with gross income less than $32,000 may also exclude such benefits. For income above these levels, the exclusion is reduced dollar for dollar, eg. for single taxpayers, exclusion disappears at $31,000.

Qualified Retirement Plans

<table>
<thead>
<tr>
<th>Pre-1988</th>
<th>1988 Changes</th>
<th>1998 Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Missouri state employees except University of Missouri</td>
<td>1. Federal civil service employees</td>
<td>1. Private</td>
</tr>
<tr>
<td>3. Local government employees</td>
<td></td>
<td>1. University of Missouri</td>
</tr>
</tbody>
</table>

**Exhibit B.01a**
**Pension Income Exclusion Available**

<table>
<thead>
<tr>
<th>Year</th>
<th>Source of Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988 &amp; Before</td>
<td>State</td>
</tr>
<tr>
<td>1989</td>
<td>Yes</td>
</tr>
<tr>
<td>1998 &amp; Later</td>
<td>Yes</td>
</tr>
</tbody>
</table>
B.03 Accumulation Distribution Trust  
Missouri Statutes, Section 143.121.3  
Definition  
Taxpayers may exclude from Missouri adjusted gross income the amount of accumulated distributions from trusts to the extent this income is included in federal adjusted gross income.

B.04 Enterprise Zone Income Modification  
Missouri Statutes, Sections 135.200 to 135.255  
Definition  
A qualified business located in an enterprise zone may deduct one-half of the Missouri taxable income earned within the enterprise zone. Shareholders of S corporations and partners of partnerships are allowed this deduction earned by their business based upon their share of ownership of the business. Expires 1-1-2005.

B.05 Lottery Prizes  
Missouri Statutes, Section 313.321  
Definition  
Taxpayers may exclude from Missouri adjusted gross income to the extent included in federal adjusted gross income, Missouri lottery game prizes received during the period of June 11, 1985 to July 1, 1988. Beginning September 1, 1988 Missouri lottery game prizes, which aggregate less than $600 during the tax year and are included in federal adjusted gross income, may be excluded from Missouri adjusted gross income.

B.06 Brownfield Income Modification  
Missouri Statutes, Section 447.708 and 135  
Definition  
A qualified business may deduct one-half of the Missouri taxable income attributable to the eligible project. Shareholders of S corporations and partners of partnerships are allowed this deduction earned by their business based upon their share of ownership of the business. Formerly called Abandoned Property.

B.07 National Socialist (NAZI) Persecution  
Missouri Statutes, Section 143.127  
Definition  
For all tax years beginning on or after January 1, 2000, the following amounts received by an individual or returns and payments to any individual shall be subtracted from the individual’s federal adjusted gross income. These subtractions shall only apply if the individual was a victim of Nazi persecution, actions, or policies or is the spouse of descendant of a victim and the individual or family member is the first recipient of such amounts, returns or payments. This is for the victims of the Nazi Holocaust.

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**Exhibit B.01b**  
Maximum Amount of Pension Income Exclusion

<table>
<thead>
<tr>
<th>Year</th>
<th>State</th>
<th>Federal</th>
<th>Private</th>
<th>Annual Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988 &amp; Before</td>
<td>100%</td>
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<td>0</td>
<td>*</td>
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<tr>
<td>1989 *</td>
<td></td>
<td>$3,000</td>
<td>0</td>
<td>$6,000</td>
</tr>
<tr>
<td>1990 *</td>
<td>$6,000</td>
<td>$6,000</td>
<td>0</td>
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</tr>
<tr>
<td>1998</td>
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</tr>
<tr>
<td>2002 forward</td>
<td>$6,000</td>
<td>$6,000</td>
<td>$6,000</td>
<td>$6,000</td>
</tr>
</tbody>
</table>

* Transition year
C. Missouri Deductions from Adjusted Gross Income
These are one of two types of adjustments to adjusted gross income. This first group includes specific personal expenditures and taxes (e.g., charitable contributions and federal income and payroll taxes). The second group consists of personal exemptions for taxpayers and dependents.

C.01 Standard Deduction
Internal Revenue Code, Sections 63 and 1; Missouri Statutes, Section 143.131
Definition
Taxpayers may deduct a standard deduction from Missouri adjusted gross income when computing their Missouri taxable income, unless they were required to itemize deductions for federal purposes. Standard deduction amounts listed below in exhibit C.01 are the allowable federal standard deduction.

<table>
<thead>
<tr>
<th>Year</th>
<th>Single Return</th>
<th>Head of Household</th>
<th>Married Filing Joint</th>
<th>Married Filing Separate</th>
</tr>
</thead>
<tbody>
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</table>

Missouri taxpayers who are blind or 65 years of age or older or claimed as a dependent use the special standard deduction shown on the federal return. For example, for persons claiming blind or 65 and over, the standard deduction ranges from $6,250 to $7,500 for single and $11,000 to $14,000 for married filing jointly. For those who claim to be a dependent on another taxpayer’s return, they deduct a minimum of $800 to a maximum equaling the standard deduction listed in the table above. For those dependents who are blind or 65 and over, they add a minimum additional amount of $1,250 for single or $1,000 for married to the dependent deduction calculated above.

Itemized Deductions
Items C.02 through C.08 describe Missouri itemized deductions.

C.02 Medical and Dental Expenses Deduction
Internal Revenue Code, Sections 63(f) and 213; Missouri Statutes, Section 143.141
Definition
Taxpayers may claim as Missouri itemized deductions the same amount of medical and dental expenses as included in federal itemized deductions. The deduction is equal to the sum of all qualified medical expenses exceeding 7.5 percent of federal adjusted gross income.
C.03 **Tax Deduction**  
Internal Revenue Code, Sections 63(f) and 164; Missouri Statutes, Section 143.141  
Definition  
Taxpayers may claim as Missouri itemized deductions the same amount of tax deductions as included in federal itemized deductions, except the amount of state income tax. The deduction includes real and personal property taxes and local income taxes. See items C.09, C.10, C.12, and C.13 for additional tax deductions.

C.04 **Interest Deduction**  
Internal Revenue Code, Sections 63(f) and 163; Missouri Statutes, Section 143.141  
Definition  
Taxpayers may claim as Missouri itemized deductions the same amount of interest deductions as included in federal itemized deductions. This deduction includes interest on home mortgages and other personal loans. Owner-occupants of homes may deduct mortgage interest (but not maintenance outlays or depreciation) on their primary and secondary residences as itemized nonbusiness deductions. The Tax Reform Act of 1986 limited the mortgage interest deduction to interest on debt no greater than the owner’s basis in the residence, plus qualified medical and educational expenses financed by the mortgage. The Omnibus Budget Reconciliation Act of 1987 changed the rules for deducting the mortgage interest on debt incurred after Oct. 13, 1987. Interest on mortgage debt to acquire or improve a principal or second residence is still fully deductible for debt of no more than $1 million. Interest on up to $100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the debt does not exceed the fair market value of the residence. Mortgage interest deductions on personal residences are tax expenditures because the taxpayers are not required to report the value of owner-occupied housing services as gross income. The deduction for non-mortgage interest is being phased out over a five-year period which started in 1987.

C.05 **Charitable Contributions**  
Internal Revenue Code, Sections 63(f) and 170; Missouri Statutes, Section 143.141  
Definition  
Contributions to charitable, religious, and certain other nonprofit organizations are allowed as an itemized deduction for individuals, generally up to 50 percent of adjusted gross income. Taxpayers whose contributions to charitable or educational organizations take the form of capital assets (usually securities that have appreciated in value) can claim its current value as a deduction without the taxation of any appreciation in value. Beginning in 1982, corporations could also deduct charitable contributions up to 10 percent of their pre-tax income. The Tax Reform Act of 1986 includes in the alternative minimum tax bases of individuals and corporations the untaxed appreciation of contributed property. Tax expenditures resulting from the deductibility of contributions are shown separately for educational and other institutions. Contributions to health institutions are reported under the health function. Taxpayers may claim as Missouri itemized deductions the same amount of contributions as included in federal itemized deductions.

C.06 **Employment-Related Moving Expenses**  
Internal Revenue Code, Section 62(8) and 217; Missouri Statutes, Section 143.121.1  
Definition  
Taxpayers may deduct as an itemized deduction certain reasonable moving expenses incurred in connection with starting work at a new principal place of employment. Up to a maximum of $3,000 are imposed on certain types of the expenses. Any reimbursement for moving expenses received by the taxpayer is taxable. This tax expenditure is not reported because the data is no longer available from OMB.

---

**Exhibit C.04**

**Personal Interest Phaseout Schedule**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent Allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
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</tr>
<tr>
<td>1987</td>
<td>65</td>
</tr>
<tr>
<td>1988</td>
<td>40</td>
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<td>1989</td>
<td>20</td>
</tr>
<tr>
<td>1990</td>
<td>10</td>
</tr>
<tr>
<td>1991 and thereafter</td>
<td>0</td>
</tr>
</tbody>
</table>
C.07  **Casualty-Theft Losses**  
Internal Revenue Code, Sections 63(f) and 213(3); Missouri Statutes, Section 143.141  
**Definition**  
Premiums paid for casualty and theft insurance to protect one’s personal or real property are considered personal expenditures, as are purchases of the property itself. Neither the purchase of property nor insurance premiums to protect its value are deductible as costs of earning income; therefore, reimbursement for insured loss of such property is not reportable as a part of gross income. Under neither the reference nor normal tax base-lines would the amount of an uninsured loss of such property be reportable. However, a special provision permits taxpayers to deduct casualty and theft losses of more than $100 each, but only to the extent that total losses during the year exceed 10 percent of adjusted gross income. This special relief for taxpayers suffering an uninsured loss is a tax expenditure.

C.08  **Miscellaneous Deductions**  
Internal Revenue Code, Sections 63(f), 67, 212(3) and 222; Missouri Statutes, Section 143.141  
**Definition**  
Prior to the passage of the Tax Reform Act of 1986, individuals were allowed an unlimited itemized deduction for miscellaneous expenses (eg. union dues, job-hunting, education, special clothing, legal fees, etc.). For taxpayers beginning in 1987, most of these deductions are allowed only to the extent that the aggregate amount exceeds 2 percent of adjusted gross income. Taxpayers may claim as Missouri itemized deductions the same amount of miscellaneous deductions as included in federal itemized deductions.

C.08a  **Miscellaneous Deductions Subject to 2% Limitation**

C.08b  **Miscellaneous Deductions Not Subject to 2% Limitation**

C.08c  **Mutual Funds (RIC) Expenses**  
**Definition**  
Individuals may deduct miscellaneous expenses only to the extent that they exceed 2 percent of their adjusted gross income. Many of the costs incurred by individuals in managing their personal securities portfolios are among the miscellaneous deductions allowed taxpayers who itemize deductions. Mutual funds perform these portfolio management functions for their shareholders and pay out their portfolio incomes net of these expenses. The shareholders are permitted to report their fund income net of management expense. They are, thereby, able to deduct fully portfolio management expenses without regard to the miscellaneous deduction limitation.

C.09  **Contribution for Artistic Literary Work**  
Missouri Statutes, Section 143.141.3  
**Definition**  
A deduction is allowed from Missouri adjusted gross income for the fair market value of a literary, musical, scholarly, or artistic composition which is contributed to any tax-exempt agency or institution operated on a not-for-profit basis by any taxpayer who created the composition.

**Social Security Taxes**  
Items C.10-C.12 describe social security tax deductions.

C.10  **Social Security (F.I.C.A.) Tax**  
Missouri Statutes, Section 143.141.3(a)  
**Definition**  
Under the Federal Insurance Contributions Act, an employer is required to withhold social security taxes from wages paid to an employee during the year. The employer must also match the tax withheld from the employee’s wages. This amount is deductible from Missouri adjusted gross income but cannot exceed the maximum tax for each taxpayer. A taxpayer may claim this deduction only if he or she itemized deductions for federal tax purposes.
### Exhibit C.10
Social Security Tax

<table>
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<th>Year</th>
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<th>Self-Employed Individuals</th>
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</tr>
<tr>
<td>2010*</td>
<td>$118,500</td>
<td>7.65</td>
</tr>
</tbody>
</table>

*Projected; NOTE: For years 1990-1993, the maximum income subject to the health insurance portion of this tax (1.45 percent for employed individuals and 2.90 percent for self-employed individuals) was $125,000. For years after 1994, there is no maximum income for the health insurance portion.

### Exhibit C.11
Railroad Retirement Tax

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<td>Maximum Income Subject to Tax</td>
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<td>1991</td>
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<tr>
<td>2010*</td>
<td>$118,500</td>
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</table>

*Projected; NOTE: For years 1990-1993, the maximum income subject to the health insurance portion of this tax (1.45 percent for employed individuals and 2.90 percent for self-employed individuals) was $125,000. For years after 1994, there is no maximum income for the health insurance portion.

1 Beginning in 2004, the tier 2 tax rate will be determined annually from a tax rate schedule based on the average account benefit ratio. The average account benefit ratio is the average for the 10 fiscal years preceding the calendar year of the ratio of the fair market value of the assets in the Railroad Retirement Account and the National Railroad Retirement Investment Trust as of the close of each fiscal year to the total benefits and administrative expenses paid from those accounts during the fiscal year. Employee tax rates can change from 0 percent to 4.9 percent.
C.11 Railroad Retirement Tax
Missouri Statutes, Section 143.141.3(b)
Definition
Railroad retirement tax is deductible from Missouri adjusted gross income; however, the deduction cannot exceed the maximum tax (see Exhibit C.11) for each spouse. A taxpayer may claim this deduction only if he itemizes deductions for federal tax purposes.

C.12 Self-Employment Tax
Missouri Statutes, Section 143.141.3(c)
Definition
The self-employment tax is based on “net earnings from self-employment.” See C.10 for the maximum amount of taxable self-employment. However, if wages subject to social security or railroad retirement tax are received during the tax year, the taxable amount is reduced by the amount of wages on which these taxes were paid. This amount of tax is deductible from Missouri adjusted gross income, only if the taxpayer has itemized deductions for federal tax purposes.

Federal Income and Other Tax Deductions
Items C.13-C.14 describe deductions Missouri taxpayers may take for federal taxes.

C.13 Federal Income Tax Deduction
Missouri Statutes, Section 143.171
Definition
A Missouri taxpayer is allowed a deduction of $5,000 for individual filers and $10,000 for combined filers for his or her federal income tax liability for the same taxable year in which the Missouri return is filed. This deduction does not include the credits and other tax liabilities in item C.14 (Other Federal Tax Deduction). Effective 1994

C.14 Other Federal Tax Deduction
Missouri Statutes, Section 143.171
Definition
Added to the federal income tax deduction (on the Missouri return) are foreign tax credit, alternative minimum tax, tax from recapture of investment credit, and tax on IRA. The total federal income tax deduction must include these taxes.

C.14a Health Insurance - Long-term
Missouri Statutes, Section 143

C.14b Health Insurance - Self-employed
Missouri Statutes, Section 143.113
Definition
A taxpayer who is an employee within the meaning of Section 401(c)(1) of the IRC of 1986, as amended, shall be allowed to subtract from the taxpayers MO adjusted gross income to determine MO taxable income an amount equal to the amount which the taxpayer has paid during the taxable year for insurance which constitutes medical care for the taxpayer, the taxpayers’s spouse, and dependents to the extent that such amounts qualify as deductible pursuant to Section 162(1) of the IRC of 1986, as amended, for the same taxable year, and shall only be deductible to the extent that such amounts are not deducted on the taxpayer’s federal income tax return for that taxable year. Beginning on or after January 1, 2000.

C.15 Taxpayer Exemptions
Missouri Statutes, Section 143.151
Definition
Individuals are allowed deductions for personal exemptions as follows:
Taxpayer = $2,100
Taxpayer’s Spouse = $2,100
Head of Household/Surviving Spouse = $3,500 additional
C.16  **Dependent Exemptions**  
Missouri Statutes, Sections 143.151 and 143.161  
**Definition**  
Taxpayers may claim a deduction of $1,200 for each dependent for whom they are entitled a dependency exemption for federal income tax purposes.

C.17a  **Dependent Students Age 19 or Older**  
Missouri Statutes, Section 143.151  
**Definition**  
Taxpayers can claim personal exemptions for dependent children age 19 or over who receive parental support payments of $1,000 or more per year, are full-time students, and do not claim a personal exemption on their own tax returns. This preferential arrangement usually generates tax savings because the students’ marginal tax rates are more often than not, lower than their parents’ marginal tax rates.

C.17b  **Dependent Age 65 & Older**  
Missouri Statutes, Section 143.161  
**Definition**  
A resident may deduct $1,200 for each dependent for whom such resident is entitled to a dependency exemption deduction for federal income tax purposes. In the case of a dependent who has attained sixty-five years of age on or before the last day of the taxable year, if such dependent resides in the taxpayer’s home or the dependent’s own home or if such dependent does not receive Medicaid or state funding while residing in a facility licensed pursuant to chapter 198 RSMo, the taxpayer may deduct an additional $1,000. For all taxable years beginning after December 31, 1997.

C.18  **Combined Versus Joint Return**  
Missouri Statutes, Section 143.031  
**Definition**  
A husband and wife who file a joint federal income tax return are required to file a combined return for Missouri income tax purposes. The combined return includes all the income and deductions of the husband and wife. Because Missouri has but a single tax table, husbands and wives have the option of prorating their respective income. The taxable income is proportioned to each spouse based on the ratio of that spouse’s separate Missouri adjusted gross income to their combined Missouri adjusted gross income. The tax of each spouse is then determined and the total of their separate tax is their combined tax. The proportioning of the taxable income generates a maximum tax expenditure $225 per return.
D. Missouri Credits

D.01 Senior Citizen’s Property Tax Credit
Missouri Statutes, Section 135.010
Definition
Individuals who are 65 years of age or older and who were residents of Missouri during the entire calendar year may be entitled to a property tax credit. The credit is based upon a formula using both the income and property tax or rent equivalent paid.

Exhibit D.01
Income Limitations for the Senior Citizen’s Property Tax Credit

<table>
<thead>
<tr>
<th>Year</th>
<th>Maximum Income</th>
<th>Minimum Income</th>
<th>Maximum Credit</th>
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1Individuals with this amount or lower received the full amount of tax/rent paid not to exceed the maximum credit for that year.

2Projected

D.02 Neighborhood Assistance Credit
Missouri Statutes, Section 32.100
Definition
A business that makes a contribution to an organization that provides neighborhood assistance, job training or education for individuals, community services, or crime prevention in Missouri may receive a tax credit for up to 70 percent of the amount contributed. This law became effective Jan. 1, 1978.

D.03 Credit for New or Expanded Business Facility
Missouri Statutes, Section 135.100
Definition
A business that establishes a new or expanded facility within Missouri and increases the number of its employees by at least two for the entire year may claim a credit based on the amount of investment in the facility and the increase in employees. This provision has an effective date of Jan. 1, 1980. As of Jan. 1, 1999,
the amount of this credit was increased for facilities located in distressed communities.

D.04 Development and Reserve Credit
Missouri Statutes, Section 100.286
Definition
Taxpayers may claim a credit equal to 50 percent of the amount contributed to the “Economic Development Reserve” during the taxable period. The reserve is designed to stimulate investment, to expand the export of goods to foreign purchasers and to enhance employment opportunities. This credit became effective Jan. 1, 1982.

D.05 Enterprise Zone Credit
Missouri Statutes, Section 135.200
Definition
A business establishing a new or expanded facility within an enterprise zone and increasing the number of its employees by at least two may claim a credit based on the number of new employees, the investment within the zone, and training of the employees. For the first two years, if the credit exceeds the tax liability, part of the excess credit is refundable to the business. This law became effective Jan. 1, 1982.

D.06 Wood Energy Producers Credit
Missouri Statutes, Section 135.300, 135.305, 135.311
Definition
A Missouri wood energy producer may claim a credit equal to $5 per ton of processed material. This credit is effective January 1, 1997.

D.07 Seed Capital Tax Credits
Missouri Statutes, Section 348.302
Definition
A taxpayer making a contribution to a nonprofit organization operating a research and development center or to the Missouri Corporation for Science and Technology is entitled to a tax credit equal to 30 percent of the contribution. Tax credits may be assigned. This law became effective May 30, 1986.

D.08 Special Needs Adoption Tax Credit
Missouri Statutes, Section 135.327
Definition
An income tax credit up to $5,000 for nonrecurring adoption expenses for any resident individual who adopts a “special needs” child. This provision has an effective date of Jan. 1, 1988. This was renewed in 2000. After July 1, 2004 50% of adoptions must be for "special needs" children of Missouri.

D.09 Timely Remittance of Withholding Discount
Missouri Statutes, Section 143.261
Definition
Employers, for each remittance of Missouri income taxes made on or before the date due, may retain the following percentages, on an annual basis, of the total amount of state income tax withheld from their employees wages:
1. Two percent of $5,000 or less;
2. One percent of amount collected in excess of $5,000 and up to and including $10,000;
3. One-half percent of amount collected in excess of $10,000.

D.10 Affordable Housing Credit
Missouri Statutes, Section 32.111
Definition
Any business firm that engages in providing affordable housing assistance activities in the state of Missouri shall receive a tax credit if the commission or its delegate approves a proposal submitted by one or more business firms for the provision of affordable housing units. The amount of the tax credit shall not exceed 55 percent of the value of the proposal benefits, which shall include one or more of the following types of benefits to low-income persons in order to be eligible: (1) Payment of rent or mortgage for not more than three months during any 12-month period; (2) Payment to a landlord of a rent deposit or a security deposit for not more than two months during any 12-month period; (3) Case management services which shall include support services such as child care, education resource assistance, job resource assistance, counseling, and resource and referral;
(4) Outreach services to low-income persons to prevent homelessness; (5) Transitional housing facilities with support services. This credit became effective Oct. 1, 1990.

D.11 Export Finance Credit
Missouri Statutes, Section 100.250
Definition
Any taxpayer shall be entitled to a tax credit in the amount of 50 percent of any amount contributed in money or property by the taxpayer to the export finance fund during the taxpayers tax year. This law became effective Jan. 1, 1982.

D.12 Low Income Housing Credit
Missouri Statutes, Section 135.350
Definition
A taxpayer eligible for a federal low-income housing tax credit due to the construction, rehabilitation or acquisition of a qualified Missouri project shall be allowed a state tax credit, to be termed the Missouri low-income housing tax credit, if the commission issues to the taxpayer an eligibility statement.

The Missouri low-income housing tax credit shall be calculated by multiplying an amount equal to the taxpayer’s federal low-income housing tax credit for a qualified Missouri project, for a federal tax period, by 20 percent and such amount shall be subtracted from the amount of state tax otherwise due for the same tax period. The credit shall be taken against the taxes and in the order specified under section 32.115, RSMo. This credit became effective June 18, 1991.

D.13 Small Business Incubator Credit
Missouri Statutes, Section 620.495
Definition
For any taxable year beginning after Dec. 1, 1989 a taxpayer shall be entitled to a tax credit against any tax otherwise due under the provisions of chapter 143 or chapter 147 or chapter 148, RSMo, excluding withholding tax imposed by sections 143.191 to 143.265, RSMo, in the amount of 50 percent of any amount contributed by the taxpayer to the Missouri small business incubators fund during the taxpayer’s tax year or any contribution by the taxpayer to a local sponsor after the local sponsor’s application has been accepted and approved by the department.

D.14 Infrastructure Development Credit
Missouri Statutes, Section 100.250
Definition
Any taxpayer shall be entitled to a tax credit in the amount of 50 percent of any amount contributed in money or property by the taxpayer to the infrastructure development fund during the taxpayers tax year. This credit became effective Jan. 1, 1982.

D.15 Jobs Training Credit
Missouri Statutes, Section 178.894
Definition
The employer may deduct from withholding an amount equal to 2.5 percent of the gross wages paid by the employer for each of the first 100 jobs and 1.5 percent of the gross wages paid for each of the remaining jobs. Effective as of July 1990.

D.16 Qualified Research Expense Credit
Missouri Statutes, Section 620.1039
Definition
This program provides a credit in the amount of the principle and interest due on any public issue bonds sold by the Missouri Development Finance Board. Effective as of January 1994. No new tax credits issued after January 1, 2005.

D.17 Small Business Investment Credit
Missouri Statutes, Section 135.403
Definition
A taxpayer may receive a credit equal to 40 percent of the amount invested in certain independently owned and
operated small businesses. Effective Jan. 1, 1999, this credit is increased to 60 percent for investments made in distressed communities.

D.18  Higher Education Scholarship Tax Credit
Missouri Statutes, Section 173.196
Definition
A taxpayer may receive a credit equal to 50 percent of the amount contributed to the Higher Education Scholarship Donation Fund. Effective date is January 1995. Expired January 2005.

D.19  Brownfield Tax Benefits Credit
Missouri Statutes, Section 447.708
Definition
Any person or business operating an eligible project of hazardous waste remediation on certain abandoned property, may be eligible to earn tax credits for new investment and new or retained jobs for up to 10 tax periods. Formerly called “Abandoned Property”.

D.20  Community Bank Investment Credit
Missouri Statutes, Section 135.403
Definition
A taxpayer may receive a credit equal to either 30 percent or 40 percent of the amount invested in local community development banks or corporations.

D.21  Business Use Incentives (BUILD) Tax Credit
Missouri Statutes, Section 100.700
Definition
An eligible company with plans for an economic development project may be eligible for a revenue bond or note as well as tax credits. Any approved company that has paid an assessment for debt reduction shall be allowed a tax credit equal to the amount of the assessment. Effective Jan. 1, 1999, this credit is increased in areas designated as distressed communities.

D.22  Youth Opportunities Tax Credit
Missouri Statutes, Section 135.460
Definition
A taxpayer may be allowed a credit in an amount equal to 30 percent for property contribution and 50 percent for monetary contributions of the amount contributed to qualified youth programs.

D.23  Charcoal Producers Credit
Missouri Statutes, Section 135.313
Definition
Any person, firm, or corporation engaging in the production of charcoal or charcoal products shall be eligible for a tax credit equal to 50 percent of the purchase price of the best available control technology equipment connected with the production of charcoal, or, if the taxpayer is a manufacturer of such equipment, 50 percent of the manufacturing cost of the equipment, to and including the year it was put into service. This credit may be claimed for a period of eight years and may be carried over to any subsequent year, not to exceed seven years. This credit may be assigned. This law became effective Jan. 1, 1999.

D.24  Historic Preservation Credit
Missouri Statutes, Section 253.545
Definition
Any person, firm, partnership, trust, estate or corporation incurring costs and expenses for the rehabilitation of a certified historic structure or a structure in a certified historic district shall be entitled to a credit equal to 25 percent of the costs and expenses of rehabilitation incurred after the effective date of this law. This credit may be carried back to any of the three preceding years or carried forward for the succeeding 10 years until the full credit is used. This law became effective Jan. 1, 1998.

D.25  Maternity Home Credit
Missouri Statutes, Section 135.600
Definition
A taxpayer making a contribution of between $100 and $50,000 to a nonprofit maternity home is entitled to a tax credit equal to 50 percent of the contribution. The credit may be carried over to the next four succeeding taxable years. This law became effective Jan. 1, 2000.

D.26 Shelters for Victims of Domestic Violence Credit
Missouri Statutes, Section 135.550
Definition
A taxpayer making a contribution of between $100 and $50,000 to a nonprofit shelter for victims of domestic violence is entitled to a tax credit equal to 50 percent of the contribution. The credit may be carried over to the next four succeeding taxable years. This law became effective Jan. 1, 2000.

D.27 Sponsorship and Mentoring Credit
Missouri Statutes, Section 135.348
Definition
A qualified taxpayer is entitled to a tax credit to the extent of the lesser of $2,000 times the number of eligible students for which the qualified taxpayer is allowed a credit, or the net expenditures made directly or through a fund during a taxable year for the participation of an eligible student in an approved sponsorship and mentoring program. No credit shall be claimed for any amounts for which any other credit is allowed under any other provision of state law for the same expenditures. The credit may be carried over to any of the taxpayer’s four subsequent taxable years. This law became effective Jan. 1, 1998.

D.28 Film Production Credit
Missouri Statutes, Section 620.1039
Definition
A taxpayer may earn a tax credit of up to 50 percent of an investment of up to $500,000 in production or production-related activities by a qualified film production company with an expected in-state expenditure budget in excess of $300,000. This credit may be carried forward for up to five tax periods, provided all such credits shall be claimed within 10 tax periods following the tax period in which the activities occurred. This credit may be sold, assigned, exchanged, conveyed or otherwise transferred. This law became effective Jan. 1, 1999.

D.29 Wine & Grape Production Credit
Missouri Statutes, Section 135.700
Definition
For a maximum of five tax periods, a grape grower or wine producer shall be entitled to a tax credit equal to 25 percent of the purchase price of all new equipment and materials used directly in the growing of grapes or the production of wine in the state. This law became effective Jan. 1, 1999.

D.30 MOSTARS Higher Education Savings Program Credit (part of the Advantage Missouri Program)
Missouri Statutes, Section 173.796
Definition
Any taxpayer making a contribution to the fund shall be allowed a tax credit of up to 50 percent of the amount contributed, not to exceed $100,000. This credit may be carried forward for the succeeding 10 years until the full credit is used. This provision became effective Jan. 1, 1999. See D.37.

D.31 Rebuilding Communities Credit
Missouri Statutes, Section 135.535
Definition
A business that relocates into or commences operations in a distressed community on or after Jan. 1, 1999, may be eligible for a 40 percent credit against income taxes. Employees working in a business receiving this credit shall be eligible for a income tax credit of 1.5 percent of their gross salary. A business that relocates into, commences operations in, or is already located in a distressed community may be eligible for a credit equal to 40 percent of the amount spent on purchasing and maintaining certain equipment.

D.32 Missouri Individual Training Account Program Credit
Missouri Statutes, Section 620.1400-1460
Definition
An employer in a distressed community may receive a tax credit for employee job training and retraining
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activities. The credit may be claimed for no more than two calendar years for each employee. The maximum credit per employee per year shall be the lesser of 50 percent of the costs of classroom training or $1,500. This credit may be carried forward five years and may be sold or transferred. This act became effective Jan. 1, 1999. Repealed 2004.

D.33 Transportation Development Credit
Missouri Statutes, Section 135.545
Definition
A taxpayer shall be allowed a tax credit equal to 50 percent of a qualified investment in transportation development in a distressed community. This credit shall be for no more than $10 million each year. Unused credit may be carried forward up to 10 years and back for the previous three years until fully claimed. This credit may be transferred, sold or assigned. This law became effective Jan. 1, 1999.

D.34 Business Use Incentives Tax Credit—Rebuilding Communities
See D.21.

D.35 Credit for New or Expanded Business Facility—Rebuilding Communities
See D.03.

D.36 Small Business Investment Credit—Rebuilding Communities
See D.17.

D.37 Advantage Missouri Program Tax Credit
Missouri Statutes, Section 173.775
Definition
This program provides undergraduate and graduate loans to and establishes a loan forgiveness program for eligible students entering college teaching programs that leads to a degree in a teaching program in a critical teacher shortage area. Individuals must be full-time students in an approved upper division program leading to teacher certification and they must declare their intent to teach in a public school in Missouri.

D.38 Agricultural Product Utilization Contributor Credit
Missouri Statutes, Section 348.430
Definition
This credit allows for grants, loans or guarantee loans for the creation, development and operation of rural agricultural businesses whose projects add value to agricultural products and aids the economy of a rural economy. Effective as of July 1999. Expires December 31, 2010.

D.39 Bank Tax Credit For S Corp Shareholders
Missouri Statutes, Section 143.471, 148.112
Definition
This credit specifies the formula to be used to calculate the pro rata share of the tax credit for bank tax paid by S Corporation shareholders of bank and bank holding companies. Allows shareholders of S corporation financial institution to take credit for share of franchise tax paid by the institution. This tax is based on bank income in 1999 and after.

D.40 Dry Fire Hydrant Credit
Missouri Statutes, Section 320.093
Definition
A credit for any person, firm or corporation purchasing a dry fire hydrant (pond, tank or other water storage facility) to provide an acceptable means of water storage with the primary purpose of fire protection. This credit, not to exceed $5,000.00, shall be equal to 50% of the cost in actual installation expenditures.

D.41 Family Development Creation Credit
Missouri Statutes, Section 620.1560
Definition
The Family Development Account Program provides eligible families/individuals with an opportunity to establish special savings accounts for moneys which may be used by such families/individuals for education, homeownership, or small business capitalization. A program contributor shall be allowed a credit against the
This table has been produced by The State & Regional Fiscal Studies Unit, University of Missouri-Columbia.

D.42 **New Enterprise Creation Credit**  
*Missouri Statutes, Section 620.635 to 620.653*

**Definition**
Making a contribution to an established, professionally managed seed capital fund may qualify you for this credit. “Seed Capital” is capital provided to a qualified business for research, development, and precommercialization activities to prove a concept for a new product, process or service. Effective after December 31, 1999.

D.43 **New Generation Cooperative Incentive**  
*Missouri Statutes, Section 348.414*

**Definition**
Beginning January 1999, a person, partnership, trust, limited liability company or other donor investing cash funds in an eligible new generation cooperative (a nonprofit cooperative association formed for the purpose of operating a development facility or a renewable fuel production facility) receives a tax credit equal to the lesser of 50% of such person’s investment or $15,000. Such credits should not exceed $6 million.

D.44 **Remediation Tax Credit**  
*Missouri Statutes, Section 447.700 - 447.718*

**Definition**
If you have paid “eligible remediation costs” at a Brownfield project as determined and approved by the Department of Economic Development you may be eligible for this credit. “Eligible projects” refer to abandoned or underutilized property to be acquired, established, etc. for industry, commerce, etc., that will create new jobs or preserve existing jobs, attract new businesses to the state, etc.

D.45 **SBA Guaranty Fee Credit**  
*Missouri Statutes, Section 144.605*

**Definition**
The tax authorized by this section shall be in addition to any and all taxes imposed by law and the proceeds of such tax shall be used by the county solely for the promotion of tourism. Repealed 8/28/00.

D.46 **Pharmaceutical Income Tax Credit**  
*Missouri Statutes, Section 135.095*

**Definition**
For all tax years beginning on or after January 1, 1999, but before January 1, 2001, a resident, sixty-five years of age on or before the last day of the tax year, shall be allowed a maximum credit of two hundred dollars if the individual has a Missouri adjusted gross income of $15,000 or less; for the purpose of offsetting legend drugs.

D.47 **Shared Care Tax Credit**  
*Missouri Statutes, Section 660.053, 660.055*

**Definition**
Registered shared care families who provide long-term care for an elderly person (age 60 or older) shall receive access to certain supportive services and be eligible for a credit not to exceed $500 to defray the cost of caring for the elderly person. This credit applies to any year beginning after December 31, 1999.

D.48 **Disabled Access Tax Credit**  
*Missouri Statutes, Section 135.490*

**Definition**
Eligible small businesses shall be allowed a credit not to exceed $5,000 against the tax otherwise due pursuant to chapter 143; in an amount equal to 50% of all eligible access expenditures exceeding the monetary cap provided by Section 44 of the Internal Revenue Code. This credit becomes effective on January 1, 2000 and shall apply to all taxable years beginning after December 31, 1999. ADA Compliance.

D.49 **Mature Worker Child Care Credit**  
*Missouri Statutes, Section 620.1560*

**Definition**
Established in cooperation with the neighborhood assistance program, enrolling disadvantaged individuals 50
years of age or older, to work in child-care assignments (public/not-for-profit day care, school latch-key) an average of 24 hours a week. Credit applies to all taxable years beginning after December 31, 1999. Repealed 2004.

D.50 **Strategic Initiative Investment Income Tax Refund**

Missouri Statutes, Section 135.270

Definition

Any automobile manufacturer/assembler within a state enterprise zone may make application to the Department of Economic Development for this refund. Approval of applications may be based on the importance of the manufacturer to the economy of Missouri, along with several other factors. Such applications may be approved for no longer than five successive years with the maximum amount, per manufacturer, not to exceed two million dollars per year. Effective January 1, 1998.

D.51 **Neighborhood Preservation Act**

Missouri Statutes, Section 135.475 - 135.487

Definition

Tax credits given to a homeowner that either rehabilitates a home, or to a homeowner or developer that constructs a new home that will be or is owner-occupied in certain designated areas of the state. The areas eligible are defined in very specific terms in the section 135.530, RSMo. The credit may be carried back three years and carried forward five subsequent tax years. The credits are transferable.

D.52 **Bank Franchise Tax Credit**

Missouri Statutes, Section 148.031, 148.064

Definition

Not withstanding any law to the contrary, this tax credit shall determine the ordering and limit reductions for certain taxes and tax credits which may be used as credits against taxes paid or payable by banking institutions. Effective January 1, 2001.

D.53 **Demolition Tax Credit**

Missouri Statutes, Section 447.708

Definition

A taxpayer may earn a credit up to 100% of the cost of non-remediation demolition costs. The demolition must be a part of a city (or county) and state approved redevelopment plan. Effective January 1, 2000.

D.54 **Development Tax Credit**

Missouri Statutes, Section 32.100-32.125

Definition

Formerly included with the Neighborhood Assistance Tax Credit, is reported separately as of 2002. A credit may be redeemed for 50% of the contribution of cash or the value of certain types of property or contributions to not-for-profit corporations. This credit may be carried forward for 5 years and is sellable or transferable.

D.55 **New Enhanced Enterprise Zone**

Missouri Statutes, Section 135.967

Definition

Individual businesses in targeted industries are eligible if the facility creates at least two new jobs and $100,000 investment. The credit is limited to $4,000,000 maximum until December 31, 2006 and to $7,000,000 after January 1, 2007.

D.56 **Missouri Quality Jobs**

Missouri Statutes, Section 620.1881.8

Definition

Small/Expanding businesses, technology businesses and High Impact businesses can claim tax credits. Small/Expanding businesses can claim up to 100% of the withholding tax of new jobs for three years if the average new wage is between 100% and 119% of the average county wage or for five years if the average wage of new jobs is not less than 120% of the average county wage. Technology businesses can claim five percent of payroll of new jobs each year for up to five years plus the average wage bonus (see footnote). High Impact businesses can claim three percent of payroll of new jobs each year for up to five years plus the average wage bonus and
local incentives bonus (see footnote).

Footnote: average wage bonus is ½% bonus of payroll if new job’s wages are greater than 120% but less 140% of average county wage and is 1% of payroll of new jobs if new job’s wages are greater than 140% of average county wage.

Local incentives bonus is the amount of local incentives provided to the project as a percentage of the amount of new local tax revenue derived from the project over ten years according to the following conditions: 10-24%: 1% bonus of payroll of new jobs; 25-49% : 2% bonus of payroll of new jobs; and 50% or more: 3% bonus of payroll of new jobs.

D.57 Children In Crisis
Missouri Statutes, Section 143.191-143.265
Definition
Those filing either an individual income tax form or a corporate income tax form are eligible for a tax credit. Beginning January 1, 2006, a credit may be claimed in an amount equal to fifty percent of a contribution made to a qualified agency. The minimum credit will not be less than fifty dollars.

D.58 Residential Treatment Agency
Missouri Statutes, Section 135.1150
Definition:
Beginning January 1, 2007, taxpayers filing Individual Income Tax in Missouri can claim a credit equal to fifty percent of the amount the taxpayer contributed to a qualified residential treatment agency that are used to solely provide direct care services to children who are residents of Missouri. To be qualified, the residential care facility must be licensed under section 210.484, RSMo, accredited by the Council on Accreditation, the Joint Commission on Accreditation of Healthcare Organizations, or the Commission on Accreditation of Rehabilitation Facilities. Further, the agency must be under contract with the Missouri department of social services.

D.59 Pregnancy Resource Center
Missouri Statutes, Section 135.630
Definition:
Beginning January 1, 2007, a taxpayer—that is, a person, firm, partner in a firm, corporation, shareholder in an S corporation, or a corporation subject to the annual corporation franchise tax—can claim a credit equal to fifty percent of the amount the taxpayer contributed to a pregnancy resource center.

D.60 Family Farm Credit
Missouri Statutes, Section 348.500
Definition:
Lenders are defined as any state or national bank, farm credit system, bank for cooperatives, federal or state chartered savings and loans association, federal or state building and loan association, or small business investment company that is subject to examination by an agency of the state or federal government. Lenders are entitled to receive a tax credit from Missouri Agricultural and Small Business Development Authority. The credit is equal to 100 percent of the first year’s interest waived on a qualified eligible loan. Eligible loans are for any purchase of beef cattle, dairy cattle, sheep, goats and swine. Only breeding livestock qualify.