

# Corporation Income Tax

Like the tax on individual income, the Missouri corporate income tax became effective January 1, 1917. The original tax rate was the same as that on individuals, a flat rate levy of one-half percent. The enabling legislation also defined all major tax items.

Concomitant with the changes in the individual tax, the Missouri corporation tax was redefined in terms of federal statutes effective January 1, 1973. The base for the corporation income tax is Missouri taxable income, which is defined as U.S. taxable income attributable to Missouri less certain deductions. Exhibit 6 details the relationships involved. Those items designated with a ✓ are considered *tax expenditures*.

The corporation income tax, by its very nature, is a complicated device. As such it encompasses several significant provisions that are not encountered by its individual counterpart.

The first of these provisions is the net operating loss provisions. These permit a corporation to carry back operating losses to offset taxable income in prior years. If the income in these years is insufficient, the remaining losses may be carried forward. Another is the provision made for capital recovery. Of all the special provisions provided to the corporate sector, none is more complicated or has been changed as often as those relating to depreciation.

Other provisions of the corporation tax laws are, like their individual counterparts, based on political and practical considerations. These include intercorporate dividend payments, the amortization of research and start-up costs, the treatment of foreign income and special depletion provisions made to oil, gas and other mineral industries.

A final issue involves the proper allocation of corporate profits between political subdivisions—international and interstate. Unlike most individuals, many corporations operate in more than one state or country. The allocation of income between such jurisdictions is neither theoretic-

<b>Corporation Income Tax by Calendar Year</b>			
<b>2006 Rank of portion of gross receipts: 4</b>			
<b>2006 Tax Rate: 6.25%</b>			
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Gross Receipts</b>			
<b>General Fund</b>	325.7	399.0	441.4
<b>Other</b>	0.0	0.0	0.0
<b>Tax Expenditures</b>			
<b>Exclusions</b>	0.0	0.0	0.0
<b>Deductions</b>	55.4	58.0	60.0
<b>Credits</b>	70.6	120.8	83.4

ally straight forward nor mechanically easy. As a result, certain arbitrary rules and formulas have been developed to allocate the profits of multi-jurisdictional corporations. Obviously, this is of special interest in the case of interstate allocations.

Readers are again cautioned to view the revenue effects of the tax expenditures detailed in Exhibit 6 with some care. As previously mentioned, these may not accurately reflect the true costs of these subsidies. Further, as with the individual income tax expenditures, they cannot be aggregated in any meaningful manner.

## Exhibit 6 Derivation of Missouri Taxable Income—Corporation

<b>Gross Income</b>		<ul style="list-style-type: none"> <li>Gross profit</li> <li>Dividends</li> <li>✓ Interest</li> <li>Rents and royalties</li> <li>Net gain on sales or exchanges</li> <li>Other income</li> </ul>
	<i>minus</i>	
<b>Deductions from Gross Income</b>		<ul style="list-style-type: none"> <li>Compensation</li> <li>Salaries and wages</li> <li>Repairs</li> <li>✓ Bad debts</li> <li>Rents</li> <li>Taxes</li> <li>Interest</li> <li>✓ Contributions</li> <li>✓ Amortization, depreciation and depletion</li> <li>Advertising</li> <li>Pension and profit-sharing plans</li> <li>Net operating loss deduction</li> <li>Dividends-received deduction</li> <li>✓ Organizational expense amortization</li> <li>Employee benefit programs</li> <li>Other costs</li> </ul>
	<i>equals</i>	
<b>Federal Taxable Income</b>		
	<i>plus</i>	
<b>Positive Adjustments</b>		<ul style="list-style-type: none"> <li>State and local income taxes</li> <li>State and local bond interest</li> <li>Partnership or fiduciary adjustments</li> </ul>
	<i>minus</i>	
<b>Negative Adjustments</b>		<ul style="list-style-type: none"> <li>✓ Interest from exempt federal obligations</li> <li>✓ Interest on Missouri state and local obligations</li> <li>Reduction in gain due to basis difference</li> <li>Previously taxed income</li> <li>Amount of any state income tax refund included in federal taxable income</li> <li>Partnership or fiduciary adjustment</li> </ul>
	<i>equals</i>	
<b>Missouri Adjusted Gross Income</b>		
	<i>minus</i>	
<b>Deductions</b>		<ul style="list-style-type: none"> <li>✓ One-half of Federal income tax*</li> <li>✓ Foreign tax credit</li> <li>✓ Personal holding company tax</li> <li>✓ Recapture taxes</li> <li>✓ Alternative minimum tax</li> <li>✓ Environmental tax</li> </ul>
	<i>equals</i>	
<b>Gross Missouri Taxable Income</b>		<ul style="list-style-type: none"> <li>Multiplied by appropriate allocation factors</li> </ul>
	<i>equals</i>	
<b>Net Missouri Taxable Income</b>		<ul style="list-style-type: none"> <li>Multiplied by the effective tax rate or rates</li> </ul>
	<i>equals</i>	

**Exhibit 6 (continued)**  
**Derivation of Missouri Taxable Income—Corporation**

**Gross Tax Due Before Credits**

*less*

**Credits**

- ✓ Neighborhood assistance credit
- ✓ New or expanded business facility credit
- ✓ Development reserve credit
- ✓ Wood energy credit
- ✓ Agricultural unemployed persons credit
- ✓ Seed capital credit
- ✓ Enterprise zone credit
- ✓ Small business incubator credit
- ✓ Infrastructure development credit
- ✓ Export finance credit
- ✓ Low income housing credit
- ✓ Affordable housing credit
- ✓ Qualified research credit
- ✓ Small business investment credit
- ✓ Community bank investment credit
- ✓ Higher education scholarship credit
- ✓ Brownfield Tax Benefits Tax Credit
- ✓ Business use incentives credit
- ✓ Youth opportunities credit
- ✓ Charcoal producers credit
- ✓ Historic preservation credit
- ✓ Maternity home credit
- ✓ Domestic violence shelter credit
- ✓ Sponsorship & mentoring credit
- ✓ Film production credit
- ✓ Wine & grape production credit
- ✓ Advantage Missouri Program credit
- ✓ Rebuilding communities tax credit
- ✓ Missouri individual training account program credit
- ✓ Transportation development credit
- ✓ Agricultural product utilization contributor credit
- ✓ Bank tax credit for S corp. shareholders
- ✓ Dry fire hydrant credit
- ✓ Family development account credit
- ✓ New enterprise creation credit
- ✓ New generation cooperative incentive credit
- ✓ Remediation tax credit
- ✓ Shared care credit
- ✓ Disabled Access credit
- ✓ Mature worker child care credit
- ✓ Strategic initiative investment income credit
- ✓ Rebuilding community/neighborhood preservation credit
- ✓ Bank franchise credit
- ✓ Demolition tax credit
- ✓ Development tax credit
- ✓ New Enhanced Enterprise Zone Credit
- ✓ Missouri Quality Jobs
- ✓ Adoption Tax Credit
- ✓ Bond Enhancement Credit
- ✓ Small Business Guaranty Fees
- ✓ Skilled Development Credit
- ✓ Children In Crisis
- ✓ Residential Treatment Center
- ✓ Pregnancy Resource Center
- ✓ Family Farm Credit

*equals*

**Net Tax Due After Credits**

*\*Prior to 1994 all federal income taxes were deductible.  
 ✓ - Tax expenditure*

**Exhibit 7 - Part 1  
Corporation Income Tax Expenditures - Missouri Statutes  
2001-2011**

	2001	2002	2003 <sup>R</sup>	2004 <sup>R</sup>	2005 <sup>P</sup>	2006 <sup>F</sup>	2007 <sup>F</sup>	2008 <sup>F</sup>	2009 <sup>F</sup>	2010 <sup>F</sup>	2011 <sup>F</sup>
<b>Deductions</b>											
C.01 Federal Income and Other Taxes	50.0 <sup>F</sup>	48.0 <sup>F</sup>	52.0 <sup>F</sup>	55.0	58.0	60.0	63.0	NA	NA	NA	NA
C.03 Enterprise Zone Modifications	2.9	*	0.08	0.40	***	**	**	**	**	**	**
C.04 Brownfield Income Modification	0	0	0	0	0	0	0	0	0	0	0
C.05 Mutual Fund Modification	*	13.0	NA	NA	NA	NA	NA	NA	NA	NA	NA
<b>Missouri Credits</b>											
D.01 Neighborhood Assistance	0.14	0.28	1.66	1.26	2.53	1.29	1.28	1.26	1.25	1.23	1.22
D.02 New or Expanded Business	0.46	1.75	4.42	4.25	7.20	3.84	3.76	3.69	3.61	3.54	3.46
D.03 Development and Reserve	0.00	0.06	0.13	0.57	1.39	1.42	1.75	2.07	2.40	2.73	3.06
D.04 Enterprise Zones	0.61	2.45	6.35	15.68	23.76	12.58	13.02	13.45	13.87	14.33	14.76
D.05 Wood Energy	1.79	0.24	0.09	0.37	0.59	0.63	0.63	0.63	0.63	0.63	0.63
D.06 Seed Capital Credit	0.00	0.01	0.15	0.00	0.00	0.03	0.03	0.03	0.03	0.03	0.02
D.08 Affordable Housing	0.21	0.03	1.11	1.37	1.17	0.83	0.74	0.65	0.56	0.47	0.39
D.09 Export Finance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D.10 Missouri Low Income Housing	3.56	5.83	5.47	10.02	17.71	12.84	14.19	15.54	16.89	18.24	19.59
D.11 Small Business Incubator	0.03	0.00	0.01	0.04	0.03	0.03	0.04	0.04	0.04	0.05	0.05
D.12 Infrastructure Development	1.42	0.56	1.34	1.69	5.21	0.25	-0.62	-1.49	-2.36	-3.23	-4.10
D.13 Qualified Research	0.11	0.88	1.36	1.95	***	**	**	**	**	**	**
D.14 SBIC	*	*	0.00	*	*	-0.10	-0.13	-0.17	-0.20	-0.23	-0.26
D.15 CDC/Community Banks	0.01	0.00	0.13	*	0.01	0.03	0.03	0.03	0.03	0.02	0.02
D.16 Higher Education Scholarship	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D.17 Brownfield Job/Investment Credits	0.00	0.00	0.01	1.99	2.63	3.10	3.83	4.55	5.28	6.00	6.72
D.18 BUILD	1.92	0.00	5.21	5.35	6.35	6.11	6.81	7.51	8.21	8.92	9.62
D.19 Youth Opportunities	0.13	0.11	0.26	0.65	0.46	0.45	0.48	0.52	0.55	0.58	0.62
D.20 Charcoal Producers	0.09	0.03	0.25	0.03	0.17	0.15	0.19	0.20	0.23	0.24	0.26
D.21 Historic Preservation	1.02	0.46	11.21	20.44	39.62	25.44	28.56	31.68	34.80	37.93	41.05
D.22 Maternity Home	0.06	0.03	0.06	0.02	0.07	0.07	0.07	0.08	0.08	0.09	0.10
D.23 Shelter for Victims of Domestic Viol	0.01	0.01	0.02	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02
D.24 Sponsorship and Mentoring	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D.25 Film Production	0.07	0.00	0.00	0.09	0.12	0.09	0.10	0.11	0.12	0.13	0.14
D.26 Wine and Grape Production	0.00	0.00	0.00	0.00	*	0.00	0.00	0.00	0.00	0.00	0.00
D.27 Advantage Missouri Program	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D.28 Rebuilding Communities	0.02	0.02	0.23	0.11	0.24	0.31	0.32	0.32	0.33	0.34	0.35
D.29 Missouri Individual Training Account	0.00	0.00	0.00	***	**	**	**	**	**	**	**
D.30 Transportation Development	0.00	0.00	0.01	0.34	0.12	0.27	0.32	0.38	0.44	0.50	0.56
D.34 Agricultural Product Utilization Con	0.90	0.27	0.53	0.35	0.62	0.69	0.76	0.83	0.91	0.98	1.06
D.35 Bank Tax Credit for S-Corp	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

See Appendix IV for information on D.31, D.32, and D.33.

Figures in millions of dollars; \* = Not applicable, \*\* = Less than \$5,000; F = Forecasted numbers; P = Preliminary numbers; R = Revised numbers; NA = Not available; \*\*\*= repealed or expired

**Exhibit 7 - Part 1 (continued)**  
**Corporation Income Tax Expenditures - Missouri Statutes**  
**2001-2011**

	2001	2002	2003 <sup>R</sup>	2004 <sup>R</sup>	2005 <sup>F</sup>	2006 <sup>F</sup>	2007 <sup>F</sup>	2008 <sup>F</sup>	2009 <sup>F</sup>	2010 <sup>F</sup>	2011 <sup>F</sup>
<b>Missouri Credits</b>											
D.36 Dry Fire Hydrant	0.00	0.00	0.00	xx	xx	xx	xx	xx	xx	xx	xx
D.37 Family Development Account	0.00	0.00	*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D.38 Enterprise Creation	0.00	0.00	0.61	0.62	1.19	1.39	1.69	1.99	2.29	2.59	2.89
D.39 New Generation Cooperative Incentive	0.56	0.66	0.64	0.70	0.61	0.85	0.95	1.05	1.14	1.24	1.33
D.40 Remediation (Brownfield)	0.63	0.00	11.25	5.55	4.72	7.16	7.89	8.62	9.35	10.08	10.81
D.42 Shared Care	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D.43 Disabled Access	*	*	*	*	0.01	0.01	0.01	0.01	0.01	0.01	0.01
D.44 Mature Worker Child Care	0.00	0.00	0.00	xx	xx	xx	xx	xx	xx	xx	xx
D.45 Strategic Initiative Investment	2.00	2.00	0.00	0.00	0.00	0.80	0.84	0.87	0.91	0.95	0.98
D.46 Neighborhood Preservation	0.10	0.12	0.29	0.31	1.77	0.93	1.05	1.17	1.29	1.41	1.53
D.47 Bank Franchise	0.44	0.63	1.00	1.27	1.69	1.94	2.26	2.57	2.89	3.20	3.51
D.48 Demolition	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D.49 Development Tax Credit	0.00	0.00	0.00	0.00	0.82	0.00	0.00	0.00	0.00	0.00	0.00
D.50 Special Needs Adoption	0.08	0.00	0.02	*	0.02	0.02	0.02	0.03	0.03	0.03	0.03

Figures in millions of dollars; \* = Not applicable, \*\* = Less than \$5,000; F = Forecasted numbers; R = Revised numbers; NA = Not available; xx = repealed or expired

## Exhibit 7 - Part 2 Corporation Income Tax Expenditures - Federal Statutes 2001-2011

	2001	2002	2003	2004	2005 <sup>F</sup>	2006 <sup>F</sup>	2007 <sup>F</sup>	2008 <sup>F</sup>	2009 <sup>F</sup>	2010 <sup>F</sup>	2011 <sup>F</sup>
<b>Exclusions</b>											
A.01 Exempt Organizations	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
A.02 Credit Unions	2.9	3.3	3.5	3.7	3.0	3.3	3.6	3.8	4.1	4.4	4.7
A.03 State and Local Interest (GO)	32.0	16.5	42.5	43.8	40.3	41.5	42.8	44.1	45.4	46.7	48.1
A.04 State and Local Interest (Other)	6.0	3.6	9.4	9.7	9.7	10.0	10.3	10.7	10.8	11.2	11.6
A.05 Sale or exchange of Brownfield sites	*	*	*	*	*	0.1	0.1	0.2	0.3	0.3	0.2
A.22 Highway Projects & Rail Truck Transfer Facilities	*	*	*	*	0.1	0.1	0.1	0.2	0.2	0.2	0.2
<b>Deductions</b>											
A.06a Accelerated Depreciation <sup>1</sup>	0.4	0.1	-0.1	-0.3	4.9	5.2	5.8	6.2	6.6	7.1	7.5
Rental Property	-8.9	-6.3	-20.4	-26.4	2.7	3.6	4.9	5.0	6.6	8.6	10.2
Other Property	211.1	117.1	254.0	-60.2	207.3	273.2	328.0	392.5	434.4	473.9	513.4
Machinery and Equipment											
A.06c Percentage over Cost Depletion											
Gas and Oil	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Fuels	1.1	1.1	1.1	1.4	1.4	1.6	1.8	1.9	2.1	2.3	2.4
Non-Metallic Minerals	0.5	0.3	0.5	0.3	*	*	*	*	*	*	*
A.06d Business Start-Up Costs	8.5	-5.6	-15.6	27.5	53.2	46.9	42.1	36.0	32.2	32.5	32.7
A.06e Research/Development Costs											
A.06f Mineral Exploration/Development											
Gas and Oil	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Fuels	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Non-Metallic Minerals	0.1	0.1	0.9	0.9	3.2	4.4	4.4	3.6	2.9	2.3	1.9
A.06g Farm Cash Accounting Rules											
Expensing Certain Costs	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Multi-Year Production Costs	12.8	5.0	12.5	13.2	13.7	14.5	15.2	16.1	17.0	17.7	18.5
A.06h Charitable Contributions											
A.06i Reserve for Bad Debts											
A.06j Foreign Sales Corporations											
Deferral of Income for Disc/FSC	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Extraterritorial Income Exclusion	25.0	14.9	37.7	35.4	29.9	11.8	0.8	0.3	0.3	0.3	0.2
A.06n Insurance Companies	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1
A.06o Blue Cross & Blue Shield	1.0	1.2	1.4	1.4	2.7	2.9	3.1	2.5	2.8	3.0	3.3
A.06p Alaskan Native Corporation	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
A.06q Shipping Companies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
A.06s Property Installment Sales	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0

<sup>1</sup> Beginning in 2003 the OMB changed the calculation of the accelerated depreciation tax expenditure. See Appendix XI for further explanation. Figures in millions of dollars; NA = Not available; \* = Not applicable • = Less than \$50,000; F = Forecasted numbers, <sup>2</sup> Beginning in 2005, we switched from the Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS). With such a change, it becomes impossible to directly compare tax expenditures values prior to 2005 with those in 2005 and subsequent years.

**Exhibit 7 - Part 2 (continued)**  
**Corporation Income Tax Expenditures - Federal Statutes**  
**2001-2011**

	2001	2002	2003	2004	2005 <sup>F</sup>	2006 <sup>F</sup>	2007 <sup>F</sup>	2008 <sup>F</sup>	2009 <sup>F</sup>	2010 <sup>F</sup>	2011 <sup>F</sup>
<b>Deductions</b>											
A.06t Timber Growing Costs	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
A.06u Mining Reclamation	•	•	•	•	•	•	•	•	•	•	•
A.06v Historic Structures	0.8	0.6	1.6	1.6	1.9	2.0	2.1	2.2	2.3	2.5	2.6
A.06w Removal of Architectural Barriers	•	•	•	•	•	•	•	•	•	•	•
A.06x Life Insurance	9.2	6.0	13.8	14.9	12.5	13.1	14.5	16.4	18.0	19.3	20.6
A.07 Foreign Corporations											
A.07a U.S. Controlled Foreign Corporations	36.3	21.5	49.6	48.0	76.5	81.8	87.5	93.5	100.0	107.0	114.0
A.07d Inventory Allocation Rules	7.6	4.4	10.3	11.1	11.5	12.6	14.0	15.3	16.3	17.4	18.5
A.08a Exemption of Certain Insurance Companies	0.7	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.8	0.8	0.9
A.08c Mutuals and Cooperative Income	0.3	0.2	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
A.08d Special ESOP Rules	6.9	4.2	11.0	11.8	9.7	10.4	11.2	12.2	13.3	14.4	15.5
A.08e Deferred Taxes for Financial Firms- Foreign Income	6.1	6.5	6.7	6.9	7.1	3.0	•	•	•	•	•
A.08f Deferral of Gain on Sale of Farm Refiners	•	•	•	•	•	0.1	0.1	0.1	0.1	0.1	0.1
A.08g Film & TV Production	-0.7	1.2	4.7	12.2	0.6	0.5	0.4	-0.2	-0.5	-0.3	-0.2
A.09 Expensing of Certain Small Investments	1.1	0.8	1.9	2.0	9.9	8.5	-1.9	0.0	1.1	2.1	3.2
A.10 Empowerment Zones	0.3	0.3	•	•	2.1	2.3	2.5	2.9	1.3	0.4	0.1
A.13 Expensing Environmental Remediation Costs	0.1	•	•	•	0.2	0.1	•	-0.1	•	•	•
A.14 Employer-Provided Supplementary Unemployment Benefits	12.1	5.2	•	•	•	•	•	•	•	•	•
A.15 Life Insurance Premiums	11.9	12.1	5.2	•	•	•	•	•	•	•	•
A.16 Complying with EPA Sulfur Regulations	•	•	•	0.1	0.1	0.1	0.2	0.3	0.2	0.0	0.0
A.17 U.S. Production Activities	•	•	•	33.4	27.3	57.0	66.9	72.8	113.4	115.7	117.9
A.18 Equipment Used in Refining of Liquid Fuels	•	•	•	•	•	•	•	•	•	•	•
A.19 Natural Gas Distribution Pipelines Treated as 15-year Property	•	•	•	•	0.1	0.3	0.6	0.8	1.0	1.0	1.0
A.20 Geological & Geophysical Expenditures over 2 yrs	•	•	•	•	•	•	•	•	•	•	•
A.21 Energy Efficient Commercial Building Property	•	•	•	•	0.4	1.0	0.8	0.1	-0.1	-0.1	-0.1
A.24 FERC Restructuring Policy	•	•	•	3.4	4.2	3.6	1.6	-0.7	-2.5	-3.5	-4.5

<sup>2</sup> Beginning in 2005, we switched from the Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS). With such a change, it becomes impossible to directly compare tax expenditures values prior to 2005 with those in 2005 and subsequent years. Figures in millions of dollars; NA = Not available; • = Not applicable • = Less than \$50,000; F = Forecasted numbers.