

Missouri Business Taxes

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During the last three decades, one key factor in keeping the cost of doing business in Missouri low has been our ability to ensure that our state and local tax burden is as small as possible. With a rate estimated at 9.0% of income today—below the national average of 9.8%—Missouri's low tax burden continues to be a key factor in helping Missouri businesses grow.

Corporate Income Tax

Missouri's Corporate Income Tax rate ranked 3rd in the nation according to the Tax Foundation's State Business Tax Climate Index Rankings for 2016. Missouri's corporate income tax rate of 6.25% is applied to Missouri taxable income. In Missouri, this is the same as federal taxable income. Missouri allows 50% of federal income tax payments to be deducted before computing taxable income, leading to an effective tax rate of 5.2%.

An important tax advantage for Missouri businesses is the amount of income considered taxable—only income earned in Missouri is taxed. Two allocation options are offered for calculating this income: (1) the three-factor formula, based on sales, property and payroll or (2) the single-factor formula, based only on sales. Missouri is the only state that permits companies to choose the income allocation formula that results in the lesser corporate income tax liability. This means that companies are not penalized for locating property and jobs in Missouri as they are in the other states. In addition, it is important to note that Missouri has not adopted worldwide or nationwide unitary tax assessment in computing multinational corporate income tax liability.

Three-Factor Formula

A single state operation determines its intrastate sales and sales to non-nexus states to find the proportion of total or gross sales. A multi-state company computes these same two types of sales, and in addition, sales originating in another state and terminating in Missouri, to determine Missouri's proportion of gross sales. Using this percentage of sales and percentages of property and payroll in Missouri, an average results in a ratio that is applied to taxable income.

Tax Apportionment Formula:

Property: Varies

Payroll: Varies

Sales: Varies

Business Example:

Sales in MO	+	Property in MO	+	Payroll in MO		
Total Sales		Total Property		Total Payroll		
\$45,000,000	+	\$25,000,000	+	\$18,000,000		
\$450,000,000		\$50,000,000		\$54,000,000		
10%	+	50%	+	33%	=	93%/3 = 31%

After adding the percentages calculated for the three factors, the result is divided by three (3) to provide an average percentage to determine Missouri net income after apportionment.

Single Factor Formula

The single-factor formula is based only on sales. Fifty percent of interstate sales and 100% of Missouri intrastate sales are combined. This total is then divided by gross sales to determine the apportionment percentage.

Business Example:

$$\frac{100\% \text{ of MO intrastate sales} + 50\% \text{ of interstate sales}}{\text{Gross Sales}}$$

$$\frac{\$250,000,000 + \$100,000,000}{\$450,000,000} = 55\%$$

Personal Income Tax

Missouri applies an income tax of \$315 plus 6.0% of federal taxable income over \$9,000. Taxable income may be reduced by a portion of federal income tax liability. Additional deductions include an allowance for each dependent, personal exemption, and federal standard or itemized deductions (which includes a deduction for FICA taxes paid through withholding).

Business Example:

$$\begin{aligned} \$70,000 \text{ gross income} - \$30,000 \text{ deductions} &= \$40,000 \text{ taxable income} \\ \$40,000 - \$9,000 &= \$31,000 \times 6\% = \$1,860 + \$315 = \$2,175 \text{ tax} \end{aligned}$$

Workers' Compensation Rates

Missouri enacted tough new laws curbing abuse, increasing employee responsibility for injury, and limiting employer liability and payment in August 2005. All businesses with five or more employees in Missouri (except agricultural or domestic labor) must provide workers'

compensation insurance to protect their workers in case of job-related injury, illness or death. Companies can offer this protection through a private insurance carrier, or they can become self-insurers. Premium rates vary, depending on the risks associated with special occupations. As in most states, the premium rates apply to an employee's total annual salary. The maximum weekly benefit for temporary total disability, temporary partial disability, permanent total disability and death is currently computed as 105% of the average weekly wage, determined annually on July 1.

Missouri's workers' compensation rates compare very favorably with those in other states. Though benefits for claimants in other states usually increase automatically from year to year, in Missouri benefits cannot be increased without the review and approval of the state legislature.

The State Average Weekly Wage (SAWW) used to determine maximum workers' compensation benefits for the fiscal year beginning July 1, 2015 and ending June 30, 2016 is \$844.69. This SAWW produces the maximum weekly benefit rates for injury and illness occurring on or after July 1, 2014, as follows:

Temporary Total Disability	\$886.92
Permanent Total Disability	\$886.92
Permanent Partial Disability	\$464.58
Death	\$886.92

The actual weekly wage rate necessary to attain the maximum benefit rate is \$1,330.39 for Death, Temporary Total Disability and Permanent Total Disability and \$696.87 for Permanent Partial Disability.

(Source: Missouri Dept. of Labor and Industrial Relations)

Unemployment Insurance

In 2016, Missouri's unemployment insurance tax rate was ranked 12th best in the nation by the Tax Foundation.

Most companies doing business in Missouri are required to pay unemployment insurance to protect their workers during unemployment. This applies to most businesses having one or more workers on the payroll for 20 weeks during the calendar year and to businesses paying \$1,500 in total wages in a given quarter. All employers, except those making reimbursable payments, have an assigned tax rate. An employer's rate may change each year.

For its first two or three years, an employer receives the new employer rate. This is a rate assigned to all new employers of the same industrial classification. Eventually an employer becomes eligible for an experience rate. This is a rate calculated based on the ratio between an employer's average annual taxable payroll, unemployment claims against its account, and taxes paid in previously by the employer.

Each employer that becomes liable to report workers' wages and pay unemployment taxes is assigned to an industrial classification division. Until eligible for an experience rate regular employers (not including governmental entities and certain nonprofit organizations) are

assigned an annual tax rate, which is the average tax rate computed during the preceding year of all employers within the industrial classification division to which assigned, or 2.7%, whichever is the highest. Depending on the cash balance of the Unemployment Trust Fund, there may be an increase or decrease to these annual rates.

In 2015, beginning rates for all new employers will be 3.510%.

An employer generally becomes eligible for an experience rate after two full years of liability under the law. An experience rate is based on a ratio arrived at by dividing an employer's account balance by its average annual taxable payroll. Rates could range from 0.0% to 6.0%, not including surcharge and/or a percentage increase/decrease. Rates for employers participating in the shared work program could range from 0.0% to 9.0%, not including surcharge and/or a percentage increase/decrease.

There is a limit on the amount of wages paid to an individual worker in a calendar year on which each employer must pay a tax. For 2015, the taxable wage base limit is \$13,000.

Property Taxes

Property taxes are assessed and collected at the local level and vary by taxing jurisdiction. In Missouri, companies typically pay both real property tax and business personal property tax, unless the local jurisdiction is offering to abate some or all property taxes.

Business Personal Property Tax

This tax is collected on existing machinery and equipment, furniture and fixtures. Inventory is not taxable.

The tax is determined by applying the local tax rate to the taxable value of the asset (machinery, equipment, furniture and fixtures, etc.); taxable value is equal to 33-1/3 percent of the asset's true value (book value minus depreciation). Local tax rates vary by taxing jurisdiction.

Business Example:

True value	<u>\$1,000,000</u>
Taxable value	\$333,333 (equal to 33-1/3 percent of true value)
	x
Local tax rate	<u>5.00 percent</u>
Annual Tax	\$16,667 (before abatements)

Real Property Tax

This tax is collected on the value of land, buildings, and building improvements.

The tax is determined by applying the local tax rate by the taxable value of the asset (land, building, etc.); for non-residential real estate (e.g. industrial, commercial, etc.), taxable value is equal to 32 percent of the asset's assessed value. Local tax rates vary by taxing jurisdiction.

Business Example:

<u>Assessed value</u>	<u>\$1,000,000</u>
Taxable value	\$320,000 (32 percent of assessed value)
	x
<u>Local tax rate</u>	<u>5.00 percent</u>
Annual Tax	\$16,000 (before abatements)

Other Taxes

Sales & Use Tax

A sales tax is imposed at the state and local level for the purchase of tangible property or taxable services. The state sales tax rate is 4.225 percent, while local tax jurisdictions can impose an additional local sales tax.

Certain transactions are automatically exempt from sales tax, including:

- Purchases of machinery and equipment used in the manufacturing process
- Consumption of energy used in the manufacturing process

Missouri recently signed into law an incentive that could provide exemptions from various state and local sales and use taxes for some new, expanding, and replacement data center facilities. This incentive will become effective August 28, 2015.

Franchise Tax

A franchise tax also applies to Missouri corporations, though this tax will be completely phased-out in 2016. If a corporation did not have a corporate franchise tax liability in 2010 because such corporation was not doing business within the state or did not exist, such corporation’s franchise tax liability will be capped at the amount of such corporation’s franchise tax liability for its first full-year of existence. Beginning January 1, 2012, the corporate franchise tax rate will be gradually reduced over a five year period until it is completely phased-out. Effective January 1, 2016, no corporate franchise tax will be imposed.

The franchise tax rate is 1/150 of 1% or \$0.067 per \$1,000 of par value of outstanding shares and surplus or total assets in 2015. Corporations with less than \$10,000,000 outstanding shares and surplus are not taxed. Multi-state corporations are subject to franchise tax only on that portion of total company shares and surplus which occurs in Missouri. The tax is computed by applying the percentage of total property and assets which occurs in Missouri to total company shares and surplus. For example, a company with \$50,000,000 in outstanding shares and surplus, with 10% of its property and assets in Missouri, would have a franchise tax of \$650.

Incorporation Fee & Annual Registration Fee

A new corporation must pay an incorporation fee of \$50 for the first \$30,000 or less of shares and \$5 for each additional \$10,000 or portion thereof. A foreign corporation pays \$150 for certification. Annual corporate registration fees must also be paid by domestic and foreign corporations doing business in Missouri. The rate is \$40 annually for registration with the Secretary of State’s Office.