

TITLE 12—DEPARTMENT OF REVENUE
Division 10—Director of Revenue
Chapter 2—Income Tax

12 CSR 10-2.155 Regulated Investment Companies

PURPOSE: This rule explains when a corporate or individual taxpayer may subtract or must add back income from a regulated investment company on its Missouri return.

PUBLISHER'S NOTE: The secretary of state has determined that publication of the entire text of the material that is incorporated by reference as a portion of this rule would be unduly cumbersome or expensive. This material as incorporated by reference in this rule shall be maintained by the agency at its headquarters and shall be made available to the public for inspection and copying at no more than the actual cost of reproduction. This note applies only to the reference material. The entire text of the rule is printed here.

- (1) The term regulated investment company (RIC or mutual fund), as used in this rule, shall mean an organization which meets the qualifications of, and has made the proper election required by, Internal Revenue Code (IRC) section 851.
- (2) Pass Through of Exempt-Interest on United States Obligations. As used in this section, the term United States Obligations means those obligations described in section 143.121.3(1), RSMo. An RIC having income from United States Obligations may pass the exempt character of that income through to its shareholders as state income tax exempt-interest dividends. To the extent provided in this section, this exempt-interest is allowable as a modification on the shareholder's income tax return. The modification allowed will be the amount received by the shareholder as a state income tax exempt-interest dividend, less the amounts described in subsections (2)(A) and (B). A state income tax exempt-interest dividend means any dividend or part of a dividend paid by an RIC, attributable to United States Obligations (not including exempt-interest dividends as defined in Internal Revenue Code (section 852(b)(5))), and designated by the RIC as a state income tax exempt-interest dividend in a written notice mailed or otherwise sent (e.g., through electronic communication) to its shareholders not later than sixty (60) days after the close of its taxable year. The notice also must state the amount of interest paid or expense incurred by an RIC in the production of the state income tax exempt-interest dividends. The taxpayer's state income tax exempt-interest dividends shall be reduced by the amount of—
 - (A) The federal corporate dividend received deduction attributable to the state tax exempt-interest dividends; and
 - (B) Interest paid or expense incurred to produce the state tax exempt-interest dividends, to the extent that the interest paid or expense incurred equals or exceeds five hundred dollars (\$500) and to the extent that such expenses would trigger a reduction in the subtraction modification under section 143.121.3(1), RSMo.

(3) A taxpayer claiming state income tax exempt-interest dividends for a tax year shall attach to that tax year's Missouri income tax return a copy of the year-end statement received from the RIC identifying all United States Obligations by issuer or a summary document indicating the percentage of dividends attributable to interest on United States Obligations. The percentage referred to in the preceding sentence shall be identical for every person who was a shareholder at any time during a calendar year, irrespective of whether that shareholder acquired or disposed of their interest during that year.

(4) Amounts excluded from a taxpayer's federal adjusted gross income or, in the case of a corporation, federal taxable income as exempt-interest dividends, as defined in IRC section 852(b)

(5), must be included in determining Missouri taxable income pursuant to section 143.121.2(2), RSMo, subject to any reduction required by section 143.121.2(2), RSMo. The previous sentence shall not apply to the extent such exempt-interest dividends are derived from interest on obligations of the state of Missouri or any of its political subdivisions or authorities or interest described in section 143.121.3(1), RSMo.

(A) Example: An RIC with only individual shareholders declares and pays a federal exempt-interest dividend pursuant to IRC section 852(b)(5) of ten thousand dollars (\$10,000) to all of its shareholders. The dividend is therefore exempt from federal income taxation. Two thousand dollars (\$2,000) of the federal exempt-interest paid is attributable to the net interest earned by the RIC on obligations issued by Missouri and its political subdivisions. One thousand dollars (\$1,000) of the federal exempt-interest dividend is attributable to the net interest earned on obligations of the territory of Puerto Rico, the interest on which, pursuant to federal law and section 143.121.3(1), RSMo, is exempt from Missouri income taxation. The remaining seven thousand dollars (\$7,000) of the federal exempt-interest dividend is attributable to the net interest earned on obligations from other states, the interest on which is not excludable from Missouri taxable income. Assume that IRC section 265 did not prohibit any deduction related to the aforementioned interest amounts. An RIC may designate three thousand dollars (\$3,000) of the federal exempt-interest dividend as a dividend which need not be included in Missouri taxable income. Each shareholder of the RIC may exclude thirty percent (30%) of their federal exempt-interest dividend (two thousand dollars (\$2,000) plus one thousand dollars (\$1,000) divided by ten thousand dollars (\$10,000)) from Missouri taxable income by excluding such amount from federal adjusted gross income. The remaining seventy percent (70%) of the federal exempt-interest dividend is includable in Missouri taxable income as a Missouri addition modification by the shareholders of the RIC pursuant to section 143.121.2(2), RSMo.

*AUTHORITY: section 143.961, RSMo 2016. * Original rule filed Jan. 7, 1986, effective May 11, 1986. Emergency amendment filed Dec. 2, 1992, effective Jan. 1, 1993, expired April 30, 1993. Emergency amendment filed April 14, 1993, effective May 1, 1993, expired Aug. 28, 1993. Amended: Filed Dec. 2, 1992, effective July 8, 1993. Amended: Filed June 2, 2025, effective Nov. 30, 2025.*

**Original authority: 143.961, RSMo 1972.*