

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

**Proposed Amendment**

**12 CSR 10-2.155 Regulated Investment Companies.** The director is amending the rule purpose and sections (1)-(4).

*PURPOSE: This amendment updates certain statutory references and alters a notice requirement to include electronic communications, among other changes.*

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

(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~~[(a)](1)~~, RSMo~~], including those obligations described in 12 CSR 10-2.150]~~. 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 (~~other than~~) **not including** exempt-interest dividends as defined in *Internal Revenue Code* (Section 852(b)(5))) *[as determined by the RIC]*, 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) *[pursuant to]* **and to the extent that such expenses would trigger a reduction in the subtraction modification under** section 143.121.3~~[(a)](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]** 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 *[must be attached to the Missouri income tax return when filed]*. 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 *[his/her] 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** *[on the taxpayer's federal return]* 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**[(b)](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. [to the extent that the interest from which they are derived would not be exempt from Missouri income tax if held directly by a resident.]**

(A) Example: An RIC **with only individual shareholders** declares and pays a federal exempt-interest dividend pursuant to IRC section 852(b)(5) of *[100x] ten thousand dollars (\$10,000)* to all of its shareholders. The dividend is therefore exempt from federal income taxation. *[20x] 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. *[10x] 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**[(a)](1)**, RSMo, is exempt from Missouri income taxation. The remaining *[70x] 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 *[30x] 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 *[his/her] their* federal exempt-interest dividend (*[20x] two thousand dollars (\$2,000)* plus *[10x] one thousand dollars (\$1,000)* divided by *[100x] 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**[(b)](2)**, RSMo.

AUTHORITY: section 143.961, RSMo *[1994] 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. \*Original authority 1972. Amended: Filed June 2, 2025.

*Public Cost: This proposed amendment will not cost state agencies or political subdivisions more than five hundred dollars (\$500) in the aggregate.*

*Private Cost: This proposed amendment will not cost private entities more than five hundred dollars (\$500) in the aggregate.*

*NOTICE TO SUBMIT COMMENTS: Anyone may file a statement in support of or in opposition to this proposed amendment with the Missouri Department of Revenue, Legislative Office, 301 W. High St., Room 218, Jefferson City, MO 65109-0475. To be considered, comments must be received within thirty (30) days after publication of this notice in the **Missouri Register**. No public hearing is scheduled.*