

# Missouri enacts research and development credit starting in 2023

July 19, 2022

## In brief

For tax years beginning on or after January 1, 2023, taxpayers may be authorized to receive a credit against the Missouri corporate income tax and financial institutions tax equal to 15% of a taxpayer's "additional qualified research expenses."

[[H.B. 2400](#), enacted on June 30, 2022]

**The takeaway:** Missouri has not had a research and development credit since the 2004 tax year. The new credit available starting in 2023 is a positive sign for businesses investing in research and development in Missouri.

## In detail

### Research and development credit

#### 15% credit starting in 2023

For tax years beginning on or after January 1, 2023, Missouri's Director of Economic Development may authorize a taxpayer to receive a tax credit against the corporate income tax or financial institutions tax equal to 15% of a taxpayer's additional qualified research expenses. The credit is increased to 20% if such expenses relate to research conducted in conjunction with a public or private Missouri college or university.

#### Additional qualified research expenses

"Additional qualified research expenses" means the difference between qualified research expenses, as certified by the Director, incurred in a tax year subtracted by the average of the taxpayer's qualified research expenses incurred in the three immediately preceding tax years.

"Qualified research expenses" has the same meaning as provided in IRC Sec. 41.

## **Application**

The Director shall prescribe the manner in which the credit may be applied for. The Director has not yet provided such guidance.

## **12-year carryover**

When the credit amount exceeds a taxpayer's tax liability, the excess may be carried forward for the next 12 succeeding years.

## **Transferable credits**

Up to 100% of the credit may be transferred, sold, or assigned by filing a notarized endorsement thereof with the Department that names the transferee, the amount of tax credit transferred, and the value received for the credit, as well as any other information reasonably requested by the Department.

## **Flow-through treatment**

For a taxpayer with flow-through tax treatment to its members, partners, or shareholders, the tax credit shall be allowed to members, partners, or shareholders in proportion to their share of ownership on the last day of the taxpayer's tax period.

## **Three-year limitation**

A taxpayer's credit may not exceed 200% of its average qualified research expenses incurred during the three immediately preceding tax years.

## **Limits**

The highest amount of credit a single taxpayer may claim in one year is \$300,000. The aggregate of all tax credits shall not exceed \$10 million in any year. \$5 million of such amount is reserved first for minority-owned, women-owned, and small businesses.

In the event that total eligible claims for credits received in a calendar year exceed the annual cap, each eligible claimant shall be issued credits based upon a pro-rata basis, given that all new businesses, defined as a business less than five years old, are issued full tax credits first.

## **Sales tax exemption**

Purchases of Missouri qualified research and development equipment are exempt from all state and local sales and use tax.

**Observation:** H.B. 2400 provides no general effective date of the bill nor a specific effective date for the sales tax exemption. Pursuant to the Missouri Constitution, Art. III, Sec. 29, a law is generally effective 90 days after the adjournment of the session in which it was enacted.

## **Sunset date**

The provisions of the program authorized under H.B. 2400 will automatically sunset on December 31, 2028. If the program is reauthorized, then the automatic sunset will be on December 31 "twelve years after the effective date of the reauthorization of this section."

**Observation:** The bill language refers to sunseting of the “program” terms. However, the bill does not describe the credit or its benefits as a “program.”

## Let's talk

If you have any questions regarding how this development may benefit your business, please contact:

### State and Local Tax Services

Brian Bernert, Partner  
+1 (614) 286-3554  
[brian.w.bernert@pwc.com](mailto:brian.w.bernert@pwc.com)

John H. Flock, SALT Credits & Incentive Leader  
+1 (312) 560-0620  
[john.flock@pwc.com](mailto:john.flock@pwc.com)

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