

Preparing for Missouri’s New Corporate Income Tax Sourcing Law

Missouri has recently changed the way it computes taxable income for corporations. As a result, corporations that do not adequately prepare for this could pay too much in income taxes and – in turn – harm their bottom line. For this reason, it is extremely important for corporations that operate in Missouri to learn the new rules as explained below.

Overview of the New Law

The new law provides that market-based sourcing is available to corporations that have sales other than tangible property and that file their returns after August 28, 2015. Prior to the new law, the optional single sales factor apportionment provisions only applied to sellers of tangible property and was sourced based upon the ultimate destination of such property. Thus, the new law greatly expands the opportunities to corporations selling services and intangibles, and provides for market-based sourcing.

Planning Under the New Law

Market-based sourcing is applicable only within the new optional single sales factor election. For this reason, corporations that sell services and intangibles should conduct annual reviews of apportionment methods to determine which option is most favorable for their circumstances. The options available to corporations are: (1) the three-factor cost of performance test; (2) the business transaction single factor sales method; and (3) the optional single sales factor method (market-based sourcing approach).

The market-based sourcing approach holds that a transaction occurs in the state of Missouri if the corporation’s market for the sales is in Missouri. The table below explains what is required to determine a corporation’s market of sales is in Missouri.

Location	Requirement
Missouri	Sale, rental, lease, or license of real property is located in Missouri
Missouri	Rental, lease, or license of tangible personal property is located in Missouri
Missouri	Sale of a service and ultimate beneficiary is located in Missouri
Missouri	Rented, leased, or licensed intangible property used in Missouri by rentee, lessee, or licensee in marketing a good or service to a customer in Missouri if that good or service is purchased by a customer located in Missouri

If a corporation cannot determine through sourcing how to appropriately apportion its sales, the new law permits the corporation to make a reasonable approximation. If a corporation cannot determine its apportionment either through sourcing or reasonable approximation, then it should exclude the undeterminable sales from the denominator of the optional single sales factor.

Moving Forward Under the New Law

This new law creates an enormous opportunity for corporations that are willing to pursue the benefits. To learn more about how you can boost your business’s profitability, contact a UHY tax professional at 314.615.1200.