LEGAL UPDATES

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Missouri Eliminates Tax on Capital Gains

Services

State & Local Taxation (SaLT)

Tax

Professionals

SMITHA CHINTAMANENI
MILWAUKEE:
414.978.5504
SMITHA.CHINTAMANENI@
HUSCHBLACKWELL.COM

ROBERT M. ROMASHKO
WASHINGTON:
202.378.2310
ROBERT.ROMASHKO@
HUSCHBLACKWELL.COM

BILL SCHENKELBERG, CPA
CHICAGO:
312.655.1500
BILL.SCHENKELBERG@
HUSCHBLACKWELL.COM

On July 10, 2025, Missouri Governor Mike Kehoe signed House Bill 594 into law, amending RSMo. § 143.121 to exempt capital gains from its existing state income tax. For tax years beginning on or after January 1, 2025, income reported as capital gain for federal tax purposes is subtracted when calculating an individual's Missouri adjusted gross income.

Tax advantages for business transactions

While this will reduce the overall tax due for many, including retirees liquidating their stock portfolio to meet cash flow needs, this could have a particularly beneficial impact on the tax liability resulting from the sale of a business treated as a pass-through entity.

If the transaction is structured as a sale of stock or ownership interest by the individual shareholder, partner, or member, the associated capital gain as reported on the individual's federal tax return will be subtracted to arrive at the Missouri adjusted gross income, thereby eliminating any Missouri individual income tax on the gain from the sale. This is a surprising positive development for those who sold their stock earlier in the year, as it results in a likely unanticipated benefit.

In addition, even if the transaction is structured as the sale of the assets by the pass-through entity, the associated capital gains will still avoid Missouri tax. Missouri distinguishes between business and nonbusiness income when computing taxable income. Business income is included in a base that is subject to apportionment. Nonbusiness income is specifically allocated to Missouri or another state, depending on the facts. The pass-through entity would need to go through this analysis; however, regardless of the determination, the capital gains reported to the owner on his or her K-1 and reported as part of federal adjusted gross income on the respective Federal

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1040 will be subtracted from federal adjusted gross income on the Missouri MO-1040.

With this new subtraction, the business-versus-nonbusiness distinction will often have little to no impact on the Missouri tax owed. In many transactions, a substantial portion of the purchase price paid is for goodwill, an intangible. The resulting capital gain passes to the individual owner and is now subtracted on his or her Missouri tax return. Allocating the gain to Missouri when preparing returns for other states could have a beneficial tax impact in those states. While the transaction may also include assets where depreciation recapture reduces the amount of capital gain, this tends to be a much smaller part of many transactions.

The legislation provides corporate taxpayers with a similar subtraction benefit when Missouri reduces the top rate of tax imposed on individuals to 4.5% or less. SB3, adopted in 2022, lowers the individual income tax rate over a period of years based on certain revenue triggers. For purposes of the legislation's fiscal estimates, the Missouri Department of Revenue presumed the 4.5% rate target will be effective for the 2029 tax year. Note the rate in effect for the 2025 tax year is 4.7%.

What this means to you

Missouri taxpayers making estimated tax payment as a result of a sale resulting in a capital gain earlier in 2025 should adjust any future payments to account for this subtraction.

Additionally, while the subtraction will benefit all Missouri individual taxpayers with capital gains, transactions involving pass-through entities stand to benefit substantially. Considerations as to proper treatment and sourcing of associated gains will still be important, but the lack of tax by Missouri provides additional opportunities for businesses with the right facts.

Finally, corporations should monitor the continued reduction of the Missouri individual tax rate, as it may influence transaction timing for deals nearing the imposition of the 4.5% rate.

Contact us

If you have questions regarding how this new Missouri tax provision impacts your business, contact a member of Husch Blackwell's State and Local Tax team or your Husch Blackwell attorney.

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