

## THOUGHT LEADERSHIP

LEGAL UPDATES

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### Service

Private Wealth

### Professionals

NICHOLAS A. SCHOLZ

ST. LOUIS:

314.345.6277

NICHOLAS.SCHOLZ@  
HUSCHBLACKWELL.COM

JILL M. PALMQUIST

ST. LOUIS:

314.480.1624

JILL.PALMQUIST@  
HUSCHBLACKWELL.COM

PATRICK T. CONNER

ST. LOUIS:

314.480.1637

KANSAS CITY:

816.983.8637

PATRICK.CONNER@  
HUSCHBLACKWELL.COM

# Missouri Irrevocable Trusts Are Now State Tax-Free (Almost)

On August 28, 2025, Missouri House Bill 754 (HB 754), which was signed by Governor Mike Kehoe on July 10, 2025, will become law, introducing a pivotal change to the state's tax code concerning non-grantor resident trusts.

### **Elimination of state income tax on non-Missouri sourced income for resident irrevocable trusts and estates**

Effective January 1, 2026, Missouri resident irrevocable trusts and estates (referred to collectively as "trusts") will no longer be subject to state income tax on income (ordinary and capital gain) that is not sourced from Missouri.

While Governor Mike Kehoe signed a bill on July 10, 2025, eliminating Missouri capital gains tax for individuals, that exemption did not extend to trusts. HB 754 effectively provides the same benefit to Missouri resident trusts for both ordinary income and capital gain which is not Missouri-sourced.

**How the law is changed.** Currently, for Missouri income tax purposes: The taxable income of a Missouri resident trust is all federal taxable income. The taxable income of a Missouri nonresident trust is only its federal taxable income from Missouri-sourced income.

As changed, Mo. Rev. Stat. 143.341 will allow a Missouri resident trust to be treated the same as a non-resident trust in that for Missouri income tax purposes it can now subtract from its taxable income that amount that would not be included as Missouri-sourced income.

**Definition of Missouri-sourced income.** Missouri-sourced income includes any income derived from or connected with sources within Missouri. This encompasses income from personal services performed in the state, the

sale or use of property within the state, or from a business conducted within Missouri's borders. It does not include, for example, income and capital gains from portfolio investments.

**Impact on distributed income.** This subtraction is only allowed for trust income which is not distributed to a beneficiary. If a trust distributes income to a beneficiary, that income will still be eligible for a deduction for distributable net income and reported on a Schedule K-1. Consequently, Missouri resident beneficiaries will still report income distributed to them on their Missouri state income tax returns.

### **What this means to you**

Historically, to minimize state income tax liabilities, trustees often considered relocating trusts to states with more favorable tax treatments. With the enactment of HB 754, such measures may no longer be necessary for Missouri resident trusts, as the state now offers a competitive tax environment for trusts. We encourage trustees and beneficiaries to review their current trust structures and consult with legal and tax professionals to understand how these changes may affect their specific situations.

### **Contact us**

If you have questions concerning HB 754, please contact a member of Husch Blackwell's Private Wealth team for guidance and assistance in navigating these new provisions.

*This legal update is for informational purposes only and does not constitute legal advice. Individuals should consult with a qualified attorney or tax professional regarding their specific circumstances.*