

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5000-01
Bill No.: HB 1712
Subject: Taxation and Revenue - Income: Department of Revenue
Type: Original
Date: April 13, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(\$2,298,466 to Unknown)	(\$2,275,381 to Unknown)	(\$2,275,381 to Unknown)
Total Estimated Net Effect on General Revenue Fund	(\$2,298,466 to Unknown)	(\$2,275,381 to Unknown)	(\$2,275,381 to Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration - Division of Budget and Planning** stated that the proposal would not directly affect their agency. They noted that the proposal would affect Total State Revenue and General Revenue Fund collections, but deferred to the Department of Revenue for estimates of the size of the impact.

Officials of the **Department of Revenue** stated that the proposal would have fiscal and administrative impact.

ADMINISTRATIVE IMPACT

Personal Tax – Taxation will use the subtraction line that is currently on the return. Therefore only changes to the instructions would be needed.

Business Tax – 143.121.3(h) – This section would allow a subtraction modification for any property sold that previously had taken federal bonus depreciation that was not allowed for Missouri. The actual modification would be the amount of addition modification that has not been recaptured by a subtraction modification in a following year. A line would need to be added to the Form MO-1120, Part 2, for this new subtraction. No programming changes required

ASSUMPTION (continued)

because DOR does not key each individual modification, only the totals.

143.431.1 - This section would allow a corporation to use his negative federal taxable income. Currently, the state does not allow negative federal taxable incomes, but instead make the taxpayer start with zero. Forms and programming changes would be required for this change.

Section 143.431.1 reverses the Missouri Supreme Court's holding in *Brown Group, Inc. v. Admin. Hearing Comm'n*, 649 S.W.2d 874 (Mo. banc 1983).

143.431.4 - This section would, it appears, allow corporations to use their negative federal taxable income and to not be taxed on any addition modifications (even if the additions exceed the negative federal taxable income). For the 2000 tax year, there were 3,880 corporations that paid Missouri tax of \$2,252,296 from Missouri additions, even though they had negative federal taxable income. Forms and programming changes will be required for this change.

Corporation Income Tax System (COINS) modifications would require an estimated 692 hours of programming at a cost of \$23,085.

FISCAL IMPACT

143.431.4 - This section would, it appears, allow corporations to use their negative federal taxable income and to not be taxed on any addition modifications (even if the additions exceed the negative federal taxable income). For the 2000 tax year, there were 3,880 corporations that paid Missouri tax of \$2,252,296 from Missouri additions, even though they had negative federal taxable income. Forms and programming changes will be required for this change.

In addition, *the section appears to allow corporations to deduction corporate dividends twice*. If this is the intent of the legislation and corporations were allowed to deduction corporate dividends again, this could result in a loss to GR of \$30.6 million.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
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GENERAL REVENUE FUND

<u>Cost</u> - Department of Revenue (DOR)			
Programming	(\$23,085)	\$0	\$0
<u>Loss</u> - Reduced Income Tax Collections	(\$2,275,381 to Unknown)	(\$2,275,381 to Unknown)	(\$2,275,381 to Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$2,298,466 to Unknown)</u>	<u>(\$2,275,381 to Unknown)</u>	<u>(\$2,275,381 to Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses which purchased certain depreciable property or have negative federal taxable income would be affected by this proposal.

DESCRIPTION

This proposal would allow an additional subtraction from a taxpayer's federal adjusted gross income when assets that are subject to federal bonus depreciation are disposed of before the end of the assets' depreciable life.

It would also allow negative federal taxable income to be reported on the Missouri income tax return and require, for tax years ending on or after December 31, 2002, for which a net operating loss is allowed for a taxable year, adding to federal adjusted gross income the amount of the net operating loss modification for each loss year as to which a portion of the net operating loss is attributable.

The proposal defines the terms "loss year", "net operating loss deduction", "net addition modification", and "net operating loss modification".

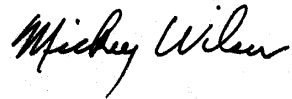
This legislation is not federally mandated, would not duplicate any other program and would not

DESCRIPTION (continued)

require additional capital improvements or rental space. This proposal would affect Total State Revenue.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Division of Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 13, 2004