

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4524-01
Bill No.: HB 1619
Subject: Corporations; Revenue Department; Taxation and Revenue
Type: Original
Date: February 22, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	\$0	(\$24,000,000)	(\$48,000,000)
Total Estimated Net Effect on General Revenue Fund*	\$0	(\$24,000,000)	(\$48,000,000)

* Actual losses could vary significantly.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>Other</u> 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 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation changes the filing requirements for franchise tax by repealing the current language in subsection 1 and replacing it with new threshold amounts beginning tax year 2007 and phasing out by 2010.

DOR assumes forms and programming changes will be required. DOR states they will not see a reduction in FTE for several years after the final phase out tax year, due to amended returns, correspondence, and phone calls.

DOR estimates their tax collections for the past four years for the corporate franchise tax and the corporate income tax have been;

	Corporate Franchise	Corporate Income	Total
2005	\$120,000,000	\$354,000,000	\$474,000,000
2004	\$91,300,000	\$329,500,000	\$420,800,000
2003	\$70,200,000	\$366,800,000	\$437,000,000
2002	\$20,700,000	\$442,500,000	\$463,200,000

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning (BAP)** states this proposal eliminates the corporate franchise tax in graduated increments by FY 2012. BAP notes that \$116.7 million was collected in corporate franchise tax in FY '05, therefore, general and total state revenues would be reduced by this amount by FY '12. BAP does not have the necessary detail to estimate the specific incremental impacts in immediate fiscal years, and therefore defers to the DOR for these estimates.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center** state the following table presents the total tax due for corporations with all assets in Missouri and those with assets in Missouri and elsewhere. In this way, one can see the change in the distribution of the tax. Note that the tax would not go into effect until 2007. Hence, tax year 2006 serves as the baseline for measuring the change in franchise tax paid into net general revenues. We compute the effect would be small in 2007, with net general revenues declining from \$288.6 million to \$287.2 million. In other words, net general revenue would decline by \$1.4 million in the first year the tax proposal of this bill implemented.

	Total Tax Due			
	Franchises with All assets in Missouri	Franchises with Assets both in Missouri and elsewhere	Total	Difference from previous year
2006	\$93,166,992	\$195,370,199	\$288,537,191	
2007	\$92,174,685	\$195,013,907	\$287,188,592	(\$1,348,599)
2008	\$91,015,211	\$194,273,721	\$285,288,932	(\$1,899,660)
2009	\$54,395,162	\$116,376,679	\$170,771,841	(\$114,517,091)
2010	\$33,884,524	\$72,607,689	\$106,492,213	(\$64,279,628)

Over time, taxes collected from corporate franchise tax would decline to \$285.3 million in 2008, \$170.8 million in 2009 and \$106.5 million in 2010.

According to the **Office of Administration - Division of Accounting**, collections for corporate franchise taxes in FY 2005 were \$119.4 million.

Since the phase-out of the corporate franchise tax starts with tax years beginning on or after January 1, 2007, **Oversight** will assume a reduction in General Revenue collections starting in FY 2008. Oversight will not utilize the estimates provided by the University of Missouri - Economic and Policy Analysis Research Center since their estimate of total taxes due from the corporate franchise tax do not correspond to the actual collections as reported by DOR.

ASSUMPTION (continued)

Therefore, **Oversight** will assume a reduction of corporate franchise taxes evenly over the period of the phase out. The phase out of the franchise tax starts in 2007 and ends in 2011, or 5 years later. Therefore, Oversight will reduce the amount of franchise tax collections (\$120 million) evenly over 5 years, or \$24 million per year, starting in FY 2008. The loss in FY 2009 will be estimated at \$48 million (\$24 million x 2 years of the phase out). Oversight assumes the actual amount of losses in corporate franchise tax collections in fiscal years 2008 and 2009 could be larger or smaller than the \$24 million and \$48 million estimates.

Oversight also assumes any saving to be realized by the Department of Revenue for not processing corporate franchise tax returns is beyond the scope of this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Loss - Department of Revenue</u>			
Phase-out of the corporate franchise tax	<u>\$0</u>	<u>(\$24,000,000)</u>	<u>(\$48,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*	<u>\$0</u>	<u>(\$24,000,000)</u>	<u>(\$48,000,000)</u>

* Actual losses could vary significantly

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that pay corporate franchise taxes would be positively fiscally impacted as a result of this proposal.

DESCRIPTION

This proposal changes the annual franchise tax rates and income threshold amounts for corporations beginning with tax year 2007.

By tax year 2011, the tax rate will be zero.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
University of Missouri
Economic and Policy Analysis Research Center



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