

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0225-02
Bill No.: HCS for HB 218
Subject: Corporations; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: March 7, 2007

Bill Summary: Would change the annual income tax rates for corporations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	\$0	(\$24,200,000)	(\$96,800,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$24,200,000)	(\$96,800,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
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 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** assume the proposal would have no fiscal impact on their organization.

Officials from the **University of Missouri Economic Policy and Research Center (EPARC)** assumed a previous version of this proposal would phase out the corporate income tax rate. Over the next three years, the rate would decline from 6.25 percent to 5 percent on September 1, 2007. The rate would decline to 3.75 percent on September 1, 2008, falling to 2.5 percent on September 1, 2009 and finally declining to 1.25 on September 1, 2010.

The current corporate income file does not distinguish between corporate income and franchise taxes. For Fiscal Year 2006, declarations for corporate income were \$363.1 million. This tax payment would be consistent with the base—that is, corporate income—being \$5,809.6 million. EPARC assumes that corporate income is earned evenly across the calendar year. Thus, monthly corporate income would be \$484.1 per month. In calendar year 2007, the corporate tax would be $(\$484.1 * 8 * .0625) + (\$484.1 * 4 * .05) = \$338.9$ million. Thus, corporate income tax revenue would decline by \$24.2 million. In 2008, the revenues generated by the corporate income tax would be \$266.3 million, representing a \$96.8 million reduction compared to revenue earned in 2006. In 2009, corporate income tax revenue would be \$193.6 million, or \$169.5 million less than 2006 levels. Finally in 2010, corporate income tax revenue would be \$121.1 million, or \$242.1 million less than 2006 level.

Oversight assumes that calendar year corporate income tax revenues would be recorded in the following state fiscal year; for example, 2007 calendar year revenue would be state fiscal year 2008 revenue. Oversight notes that this version of the proposal would delay the effective date of the rate changes by one year as compared to the EPARC estimate. Oversight will use the amounts from the EPARC estimate and adjust the effective dates.

Officials from the **Office of Administration, Division of Budget and Planning** did not respond to our request for information.

This proposal would reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
Revenue reduction - DOR			
Corporate tax rate reduction	<u>\$0</u>	<u>(\$24,200,000)</u>	<u>(\$96,800,000)</u>
<u>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</u>	<u>\$0</u>	<u>(\$24,200,000)</u>	<u>(\$96,800,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a positive impact to incorporated small businesses.

FISCAL DESCRIPTION

The proposal would reduce the income tax rates for corporations in stages. As of September 1, 2012 the tax would be eliminated.

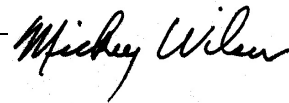
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
University of Missouri
Economic Policy and Research Center _____

NOT RESPONDING

Office of Administration
Division of Budget and Planning



Mickey Wilson, CPA
Director
March 7, 2007