

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0426-01  
Bill No.: HB 621  
Subject: Corporations; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income  
Type: Original  
Date: March 5, 2007

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Bill Summary: Would allow full deductibility from state income tax of all federal income tax liability.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$444,000,000)	(\$444,000,000)	(\$444,000,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$444,000,000)</b>	<b>(\$444,000,000)</b>	<b>(\$444,000,000)</b>

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

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

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

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

☐ 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).

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

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## **FISCAL ANALYSIS**

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### ASSUMPTION

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

Officials from the **University of Missouri, Economic Policy Analysis and Research Center** did not respond to our request for information.

**Oversight** assumes this proposal would allow individual and corporate taxpayers to deduct all federal income taxes paid. Oversight has estimated the impact of this proposal as follows.

Currently, corporations are allowed to deduct 50% of their federal income tax liability. The Tax Expenditure Report prepared by the State and Regional Fiscal Studies unit at the University of Missouri- Columbia indicates that tax expenditures related to the current deduction of federal income taxes was \$60 million in 2006. Increasing the deductibility of federal income to 100% would have a fiscal impact of approximately \$60 million per year.

Currently, individuals are allowed to deduct up to \$5,000 in federal income tax for a single filer and up to \$10,000 per year for joint filers. The most recent Internal Revenue Service report indicates that Missouri residents paid \$13.4 billion in federal income taxes. The Tax Expenditure Report prepared by the State and Regional Fiscal Studies unit at the University of Missouri- Columbia indicates that tax expenditures related to the current deduction of federal income taxes was \$418.3 million in 2004; at the maximum tax rate of 6%, that would indicate that Missouri tax payers deducted \$7.0 billion in federal income taxes. Increasing the deductibility of federal income to 100% would have a fiscal impact of approximately (\$13.4 billion - \$7 billion) = \$6.4 billion x 6% = \$384 million per year.

The combined impact of the proposal for corporate and individual filers would be \$444 million per year.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
<b>GENERAL REVENUE FUND</b>			
Revenue reduction - full deductibility of federal income tax	<u>(\$444,000,000)</u>	<u>(\$444,000,000)</u>	<u>(\$444,000,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$444,000,000)</u></b>	<b><u>(\$444,000,000)</u></b>	<b><u>(\$444,000,000)</u></b>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2008 (10 Mo.)	 FY 2009	 FY 2010
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal would allow full deductibility from state taxable income of all federal income tax liability.

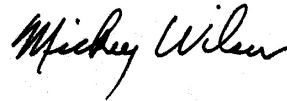
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue

NOT RESPONDING

**University of Missouri**  
**Economic Policy Analysis and Research Center**

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

Mickey Wilson, CPA  
Director  
March 5, 2007