

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1083-01
Bill No.: HB 458
Subject: Corporations; Revenue Dept.; Taxation and Revenue - General
Type: Original
Date: February 8, 2007

Bill Summary: Would change the annual franchise tax rates and income threshold amounts for corporations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	0	(\$1,348,599)	(\$3,428,259 to Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$1,348,599)	(\$3,428,259 to Unknown)

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 7 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 **Office of the Secretary of State (SOS)** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Revenue (DOR)** assume this proposal would have no fiscal impact on their organization until late in 2015 since the statute of limitations is open for three years and taxpayers could be filing amended returns.

Information Technology (ITSD/DOR) estimates the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD DOR estimates that this legislation could be implemented utilizing 3 existing CIT III for 3 months at a cost of \$37,674.

DOR estimated the fiscal impact to the state General Revenue Fund based on franchise tax returns filed for the 2005 tax year. DOR assumes revenues would be reduced in 2008 by \$2,460,331; in 2009 by \$5,764,461; in 2010 by \$32,712,354; in 2011 by \$48,392,808; and in 2010 and thereafter by \$73,441,437.

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

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic Policy and Research Center (EPARC)** stated the proposal would change the annual franchise tax rates and the threshold that must be met by the corporation's outstanding shares and surplus. Beginning in January 2008, the tax rate is 1/30th of one percent and threshold is \$2 million. In 2009, the rate stays at 1/30th of one percent and the threshold increases to \$4 million. In tax year 2010, the rate falls to 1/50th of one percent and the threshold increases to \$5 million. In tax year 2011, the rate is 1/80th of one percent and the threshold is \$6 million. The franchise tax is phased out in 2012.

The last reliable corporate income tax file available is for 2002; the following table presents the total tax due for corporations with all assets in Missouri and those with assets in Missouri and elsewhere.

Calendar Year	Franchises with all assets in Missouri	Franchises with assets in both Missouri and elsewhere	Total	Reduction in revenues	Reduction from 2007 revenues
2007	\$93,166,992	\$195,370,199	\$288,537,191		
2008	\$92,174,685	\$195,013,907	\$287,188,592	\$1,348,599	\$1,348,599
2009	\$91,015,211	\$194,273,721	\$285,288,932	\$1,899,660	\$3,428,259
2010	\$54,395,162	\$116,376,679	\$170,771,841	\$114,517,091	\$117,765,350
2011	\$33,884,524	\$72,607,689	\$106,492,213	\$64,279,628	\$182,044,978

In response to a similar proposal in the previous session (SCS for HB 1619, LR 4524-02, 2006) EPARC provided Oversight with additional information regarding the number of returns that were filed in calendar year 2005 for the franchise tax by asset range.

Number of Returns	Range of Assets	Top End of Asset Range	Tax Rate	Estimated Franchise Taxes Generated
2,181	1 mil. to 2 mil.	\$2,000,000	\$0.000333	\$1,452,546
980	2 mil. to 3 mil.	\$3,000,000	\$0.000333	\$979,020
530	3 mil. to 4 mil.	\$4,000,000	\$0.000333	\$705,960
TOTAL				\$3,137,526

ASSUMPTION (continued)

Based on that information, Oversight calculated that the proposal would eliminate franchise tax revenue currently being collected for 2,181 companies. Using the top end of the range of assets, this would result in reduction of \$1,452,546 of revenue in FY 2009.

The second step of the phase-out would occur in calendar year 2009, with the threshold of assets raised from \$2 million to \$4 million (and again the rate remaining at one-thirtieth of one percent). This would result in an additional 1,510 (980 + 530) companies not required to pay franchise taxes. Again, using the top end of the range of assets, this would result in a reduction of an additional \$1,684,980 (\$979,020 + \$705,960) of franchise tax revenue, for a total reduction for FY 2010 of \$3,137,526.

For 2010, 2011, and 2012, the thresholds continue to increase, and the rates continue to decrease. Using DOR's estimate of \$120 million in franchise fee taxes collected in calendar year 2005, this would mean the reduction in revenue from this proposal in fiscal years 2010 through 2012 would increase greatly, from \$3,137,526 in FY 2010 to \$120,000,000 for FY 2012 and beyond.

Oversight will use the EPARC estimates of revenue reductions, and assumes that any saving to be realized by the Department of Revenue from not processing corporate franchise tax returns is beyond the scope of this fiscal note. Oversight was unable to obtain any responses on the phase-in of the bank tax credit. Therefore, Oversight assumes an unknown loss to the General Revenue Fund from this credit beginning in FY 2010.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Loss - Department of Revenue</u>			
Phase-out of the corporate franchise tax	\$0	(\$1,348,599)	(\$3,428,259)
<u>Loss - General Revenue</u>			
Phase-in of bank credit	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$1,348,599)</u>	<u>(\$3,428,259 to Unknown)</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 fiscal impact to corporate small businesses and to small businesses involved in banking.

FISCAL DESCRIPTION

This proposal would change the annual franchise tax rates and income threshold amounts for corporations, and would phase in a banking tax credit.

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

Office of the Secretary of State
Department of Revenue
University of Missouri
Economic Policy and Research Center

NOT RESPONDING

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
February 8, 2007