

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1083-03
Bill No.: HCS for HB 458
Subject: Corporations; Revenue Dept.; Taxation and Revenue - General
Type: Original
Date: February 16, 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	(\$8,414,001)	(\$148,475,596 to Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$8,414,001)	(\$148,475,596 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 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 **Office of the Secretary of State (SOS)** responded to a previous version of the proposal as follows. 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)** assumed a previous version of 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.

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

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** calculated franchise taxes due as follows:

Based on 2002 data, the most recent available, 2007 taxes (FY 2008) would be \$288,537,191. In 2008 (FY 2009) franchise taxes would be \$280,123,190, a reduction of \$8,414,001. In 2009 (FY 2010) franchise taxes would be \$140,061,595, a reduction of \$148,475,596 from 2007 levels.

ASSUMPTION (continued)

Oversight notes that the proposal would change the corporation franchise tax system as follows:

1. For 2007 (FY 2008) there would be no franchise tax on corporations with assets under \$1 million. The tax rate for corporations subject to the tax would be one-thirtieth of one percent.
2. For 2008 (FY 2009) there would be no corporate franchise tax on corporations with assets under \$15 million. The tax rate would remain at one-thirtieth of one percent.
3. For 2009 (FY 2010) there would be no corporate franchise tax on corporations with assets under \$15 million (no change from 2008) and the tax rate would be one-sixtieth of one percent.

Oversight will use the EPARC estimates of revenue reductions, and assumes that any savings 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	(\$8,414,001)	(\$148,475,596)
<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>(\$8,414,001)</u>	<u>(\$148,475,596 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.

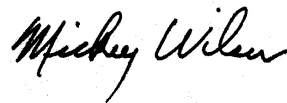
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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



Mickey Wilson, CPA
Director
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