COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3308-02
Bill No.: HB 2246
Subject: Corporations; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: April 15, 2008

Bill Summary: Would increase the sales factor in corporate income apportionment calculations by three and decrease the corporate income tax rate to 5.5 percent.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	$0	$439,100,000	$483,300,000
Total Estimated Net Effect on General Revenue Fund	**$0**	**$439,100,000**	**$483,300,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
	$0		
Total Estimated Net Effect on Other 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 2009	FY 2010	FY 2011
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	0	0	0
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 2009	FY 2010	FY 2011
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** (DOR) assume this proposal would have no direct fiscal impact to their organization. DOR officials also provided corporate income tax collections information for FY 2003 through FY 2007.

DOR officials included the Office of Administration Information Technology (ITSD/DOR) estimate that this legislation could be implemented utilizing 3 existing CIT III for 3 months for modifications to DOR systems, at a total cost of $37,674. ITSD/DOR assumes the IT portion of this request could be accomplished with existing resources; however, if priorities shift, additional resources would be needed.

Officials from the **University of Missouri, Economic Policy and Analysis Research Center** (EPARC) stated that the fiscal impact of this bill would be to reduce net general revenue by $22.7 million. EPARC provided a revenue estimate for a similar proposal. Based on 2002 corporate income tax data, EPARC indicated that corporate income taxes would increase from $370.7 million to $611.1 million (64.85%) if the proposal was enacted.

Officials from the **Office of Administration, Division of Budget and Planning** assume there would be no added cost to their organization as a result of this proposal.

This proposal would lower the corporate income tax rate from 6.25% to 5.5%. In fiscal year 2007, $381.8 million was collected in net corporate income taxes. This proposal would therefore lower general and total state revenues by (0.75 / 6.25 * 381.8) = $45.8M, beginning in FY 2009.

This proposal would also make changes to the calculation of corporate income using the three-factor formula. This proposal would weight the sales tax portion by a factor of 3. This provision would increase taxable corporate income. According to data supplied by EPARC, an estimated 28% of all corporate filers, and 87% of filers with apportionable income, opted for the three-factor method. BAP defers to EPARC or DOR for an estimate of the impact of this provision.

Oversight notes that the earlier EPARC estimate was for a proposal with a six percent corporate tax rate while this proposal includes a rate reduction to 5.5 percent. Oversight assumes that the change in tax revenues for this proposal would be (5.5 percent/6 percent) = 91.7 percent of the previous EPARC calculation and that the resulting revenue increase would be (64.85 percent x 91.7 percent) = 59.47 percent.

ASSUMPTION (continued)

The proposal would become effective August 28, 2008 for corporate tax years beginning on or after September 1, 2008 which would be filed beginning September 1, 2009. Oversight assumes these revenues would be collected in state fiscal year 2010. Oversight used the corporate income tax revenues reported by DOR to calculate an estimated average annual increase of 10.06%. Applying the estimated DOR average annual increase and the EPARC estimate of the proposal's impact on corporate income taxes, Oversight calculated an overall estimated impact as shown below.

FY 2007 reported collections	$553.9 million
Estimated FY 2008 collections ($553.9 million x 110.06%)	$609.6 million
Estimated FY 2009 collections ($609.6 million x 110.06%)	$671.0 million
Estimated FY 2010 collections before this proposal ($671.0 million x 110.6%)	$738.4 million
Estimated FY 2010 impact of this proposal ($738.4 million x 59.47%)	$439.1 million
Estimated FY 2011 collections before this proposal ($738.4 million x 110.6%)	$812.7 million
Estimated FY 2011 impact of this proposal ($812.7 million x 59.47%)	$483.3 million

The proposal would lead to similar increases in years after FY 2011.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Revenue increase - Department of Revenue - Corporate income tax	$0	$439,100,000	$483,300,000
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**$439,100,000**	**$483,300,000**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to incorporated small businesses which have operations in more than one state.

FISCAL DESCRIPTION

The proposed legislation would require corporations with operations in more than one state to multiply the Missouri sales factor by three in the allocation of taxable income to Missouri, and would reduce the corporate income tax rate from six and one-fourth percent to five and one-half percent for tax years beginning on or after September 1, 2008.

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

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April 15, 2008