

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3396-01  
Bill No.: HB 1340  
Subject: Corporations; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income  
Type: Original  
Date: January 28, 2008

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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 2009	FY 2010	FY 2011
General Revenue	\$0	(\$816,000,000)	(\$913,000,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>(\$816,000,000)</b>	<b>(\$913,000,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<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 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<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 2009	FY 2010	FY 2011
<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 2009	FY 2010	FY 2011
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Revenue** (DOR) assume this proposal would phase in full deductibility of federal income tax beginning 2009 and ending 2013.

- \* An individual taxpayer could deduct the greater of \$5,000 or 20% of their federal tax liability for 2009.
- \* An individual taxpayer could deduct the greater of \$5,000 or 40% of their federal tax liability for 2010.
- \* An individual taxpayer could deduct the greater of \$5,000 or 60% of their federal tax liability for 2011.
- \* An individual taxpayer could deduct the greater of \$5,000 or 80% of their federal tax liability for 2012.
- \* An individual taxpayer could deduct 100% of their federal tax liability for 2013.

DOR officials assumed the proposal would reduce the amount of tax due, and the amount of state revenues. The DOR estimate of administrative impact follows.

This proposal would require changes to the individual and corporate income tax forms and instructions, and the MINITS, COINS, and data entry system would need to be modified.

Customer Services would require the following 1 Tax Collections Technician I for every additional 15,000 contacts annually on the delinquent phone line; 1 Tax Collections Technician I for every additional 24,000 contacts annually on the income tax phone line; and 1 Tax Processing Technician I for every additional 4,800 contacts annually in the field offices. DOR anticipates most customers would contact the department via phone; and therefore, will only request 1 FTE for each of the larger field offices including Kansas City, St. Louis, and Springfield.

DOR officials provided this estimate of the IT cost to implement this proposal.

The Office of Administration, Information Technology Services Division, (ITSD/DOR) assumes the IT portion of this request could be implemented with existing resources; however, if priorities shift, additional FTE/overtime would be needed. ITSD/DOR estimates that implementing this legislation could be completed utilizing 1 existing CIT III for 1 month for modifications to MINITS and 1 existing CIT III for 1 month for modifications to Café at an estimated total cost of \$8,372.

ASSUMPTION (continued)

In summary, the DOR estimate of cost to implement the proposal including 5.0 additional FTE and the related equipment and expenditures totaled \$184,010 for FY 2009, \$194,087 for FY 2010, and \$199,910 for FY 2011. Officials from the Department of Revenue assumed a similar proposal in the previous session (HB 621 LR, 0226-01, 2007) this proposal would have no fiscal impact on their organization.

**Oversight** will use the DOR response from the previous session.

Fiscal impact on personal income tax collections

Officials from the **University of Missouri, Economic Policy Analysis and Research Center (EPARC)** assume this proposal would reduce 2009 individual income taxes from \$4.399 billion to \$3.595 billion, or \$804 million. In 2010, net individual income taxes due falls to \$3.510 billion, which is \$889 million. In 2011, net individual income tax due falls to \$3.404 billion, which is \$995 million less than what was received in the 2006. In 2012, the net tax due falls to \$3.282 billion, which is \$1,117 million less than most recent net tax due amount. Finally, in 2013, net tax due falls to \$3.150 billion, which is \$1,249 million less than the most recent net tax due amount.

**Oversight** will assume that 2009 personal taxes would be collected in FY 2010. Oversight notes that this proposal would also provide an new standard deduction for federal taxes on Missouri income tax returns, and the filer would receive the greater of \$10,000 or the appropriate percentage of their actual federal tax liability for joint filers, and the greater of \$5,000 or the appropriate percentage of their actual tax liability for all other filers.

Fiscal impact on corporate income tax collections

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.

This proposal would increase the deductibility of federal income tax on state corporate income tax returns from the current 50% to 60% in 2009, 70% in 2010, 80% in 2011, 90% in 2012, and 100% for 2013 and subsequent years.

ASSUMPTION (continued)

**Oversight** assumes the impact of this change would be proportional to the change in the percentage deductible, or \$12 million for 2009 (FY 2010), \$24 million for 2010 (FY 2011), \$36 million for 2011 (FY 2012), \$48 million for 2012, (FY 2013) and \$60 million for 2013 (FY 2014) and subsequent years.

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

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction</u> - increased deductibility of federal tax on Missouri personal returns	<u>\$0</u>	<u>(\$804,000,000)</u>	<u>(\$889,000,000)</u>
<b>Revenue reduction</b> - increased deductibility of federal tax on Missouri corporate returns	<u>\$0</u>	<u>(\$12,000,000)</u>	<u>(\$24,000,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<u><b>\$0</b></u>	<u><b>(\$816,000,000)</b></u>	<u><b>(\$913,000,000)</b></u>
<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

FISCAL IMPACT - Small Business

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

### FISCAL DESCRIPTION

This proposal would increase the deductibility from state income tax of federal income tax liability over a period of five years until the full federal tax amount is deductible

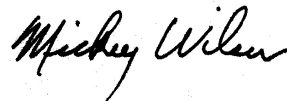
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

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

### NOT RESPONDING

**Office of Administration**  
**Division of Budget and Planning**



Mickey Wilson, CPA  
Director  
January 28, 2008