

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3635-01
Bill No.: HB 1645
Subject: Corporations; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: March 4, 2008

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$0	(\$563,000,000)	(\$563,000,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$563,000,000)	(\$563,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

This proposal would provide full deductibility of federal income taxes paid for corporations, beginning with tax year 2009. For tax year 2008, BAP estimates the liability not currently deducted would generate \$116.7 million in general and total state revenues, to be received in FY09. Assuming 5% growth, this proposal would reduce general and total state revenues by \$122.5 million in FY10, and \$128.6 million in FY11.

Officials from the **Department of Revenue** (DOR) assume this proposal would allow full deductibility of all federal income tax liability on Missouri returns. That would decrease state revenues.

The proposal would removing the current federal tax deduction language from the law and would allow a corporation full deductibility of all federal income tax liability on its Missouri return, beginning on or after January 1, 2008. The proposal would also end the current federal tax deduction limitations for individuals and allow a full federal tax deduction beginning January 1, 2009. DOR assumes that corporate income tax form changes would be required, COINS system changes would be required, individual income tax form changes would be required, and MINITS system changes would be required. DOR also assumes that Corporate Tax would require one FTE Tax Processing Technician I for every 5,200 additional returns to be verified and every 2,080 pieces of additional correspondence generated.

DOR also submitted an estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates that this legislation could be implemented utilizing two FTE existing CIT III for two months for modifications to MINITS and one FTE existing CIT III for one month for modifications to Café at an estimated total cost of \$20,930. ITSD/DOR assumes the IT portion of this request could be accomplished with existing resources; however, if priorities shift, additional FTE/overtime would be needed.

ASSUMPTION (continued)

DOR submitted a cost estimate to implement the proposal including one additional FTE and the related equipment cost and expenditures totaling \$36,726 for FY 2009, \$38,723 for FY 2010, and \$39,884 for FY 2011. DOR officials assumed a similar proposal in the previous session (HB 621 LR, 0226-01, 2007) would have no fiscal impact on their organization.

Oversight will use the DOR response from the previous session. If unanticipated costs are incurred or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

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 \$3.896 billion, or \$503 million.

Oversight will use the EPARC estimate and assume that 2009 personal income taxes would be collected in FY 2010.

Fiscal impact on corporate income tax collections

Oversight has estimated the fiscal impact of the corporate income tax part 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. Oversight assumes this proposal would reduce corporate income tax revenue by \$60 million per year beginning in FY 2009.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - increased deductibility of federal tax on Missouri personal returns	<u>\$0</u>	<u>(\$503,000,000)</u>	<u>(\$503,000,000)</u>
<u>Revenue reduction</u> - increased deductibility of federal tax on Missouri corporate returns	<u>\$0</u>	<u>(\$60,000,000)</u>	<u>(\$60,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$563,000,000)</u>	<u>(\$563,000,000)</u>

<u>FISCAL IMPACT - Local Government</u>	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.

FISCAL DESCRIPTION

This proposal would allow full deductibility from state income tax 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

Office of Administration
Division of Budget and Planning
Department of Revenue
University of Missouri
Economic and Policy Analysis 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 4, 2008