

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3636-01
Bill No.: HB 1644
Subject: Corporations; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: March 3, 2008

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(\$60,000,000)	(\$60,000,000)	(\$60,000,000)
Total Estimated Net Effect on General Revenue Fund	(\$60,000,000)	(\$60,000,000)	(\$60,000,000)

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 5 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 to generate \$116.7M in general and total state revenues, to be received in FY09. Assuming 5% growth, this proposal could reduce general and total state revenues by \$122.5M in FY10, and \$128.6M in FY11.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would reduce Missouri corporate income taxes by about \$1 million based on 2002 data.

Officials from the **Department of Revenue** (DOR) assume this proposal would allow a corporation full deductibility of all federal income tax liability, on its Missouri return. This would decrease state revenues.

DOR assumes that changes would be required to Missouri corporate income tax form and the COINS system, and 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 provided this estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates the IT portion of this request could be implemented utilizing one existing CIT III for 1 month for modifications to the corporate income tax systems at a total cost of \$4,186. ITSD/DOR assumes the proposal could be implemented with existing resources, however; if priorities shift, additional FTE/overtime would be needed.

DOR provided an estimate of the administrative cost for this proposal including one additional employee and the related equipment and expenditures totaling \$36,726 for FY 2009, \$38,723 for FY 2010, and \$39,884 for FY 2011. Officials from the Department of Revenue assumed a similar proposal in the previous session (HB 621 LR, 0426-01, 2007) this proposal would have no fiscal impact on their organization.

ASSUMPTION (continued)

Oversight will use the prior year DOR response for this proposal. Oversight has estimated the fiscal impact 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> - additional federal tax deduction on corporate tax returns.	<u>(\$60,000,000)</u>	<u>(\$60,000,000)</u>	<u>(\$60,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$60,000,000)</u>	<u>(\$60,000,000)</u>	<u>(\$60,000,000)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

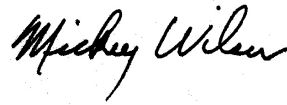
FISCAL DESCRIPTION

This proposal would allow full deductibility of federal corporate income taxes.

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 3, 2008