

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4042-01
Bill No.: HB 1551
Subject: Corporations; Taxation and Revenue - Income
Type: Original
Date: January 28, 2008

Bill Summary: Would authorize a gradual reduction in the annual corporate income tax rate.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$0	(\$78,000,000 to \$110,780,000)	(\$156,000,000 to \$221,560,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$78,000,000 to \$110,780,000)	(\$156,000,000 to \$221,560,000)

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.

BAP officials stated that this proposal would phase out the corporate income tax in Missouri, beginning in FY10. The proposed tax rates, and estimated losses to general and total state revenues, are presented below.

	Corporate Tax Rate	Projected Net Collections (millions)	Revenue Reduction (millions)
FY 09	6.25%	\$390	\$0
FY 10	5.00%	\$312	\$78
FY 11	3.75%	\$234	\$156
FY 12	2.50%	\$156	\$234
FY 13	1.25%	\$78	\$312
FY 14	0.00%	\$0	\$390

Officials from the **Department of Revenue** (DOR) assume this proposal would have no fiscal impact on their organization. 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 accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement this proposal. ITSD/DOR estimates that this legislation could be implemented utilizing 1 existing CIT III for 2 months for modifications to COINS at a total estimated cost of \$8,372.

DOR officials also provided total net corporate income tax collections for FY 2007 of \$553.9 million and for FY 2006 of \$528.8 million.

ASSUMPTION (continued)

Oversight assumes there would be a reduction of FTE and related expenditures in the Department of Revenue when the corporation income tax is no longer imposed. That cost reduction would be after FY 2013 and will not be shown in this fiscal note.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would reduce the corporate income tax rate over the next five years. More specifically, for tax year 2009, the corporate tax rate would be 5%, down from the current 6.25% rate. The rate would gradually decline, dropping to 3.75% in 2010, to 2.5% in 2011, to 1.25% in 2012, and 0% in 2013.

EPARC officials stated that they have reliable information for 2002; the taxable corporate income total was \$4.5 billion and total FY 2003 collections were \$355.4 million. EPARC provided a chart and narrative for projected corporate income tax collections from 2009 through 2013.

Year	Tax Rate	Tax revenues	Revenue reduction
2008 (based on 2002)	6.25%	\$355.4 million	\$0
2009	5.00%	\$226.2 million	\$129.2 million
2010	3.75%	\$169.7 million	\$185.7 million
2011	2.50%	\$113.1 million	\$242.3 million
2012	1.25%	\$56.6 million	\$298.8 million
2013	0.00%	\$0	\$355.4 million

ASSUMPTION (continued)

Oversight will use the DOR reported corporate tax revenue amount for FY 2007 as the base for computing revenue reductions for the purposes of preparing this fiscal note, and will use the BAP assumption of a percentage-based reduction in tax revenues since this proposal reduces the tax rate by 1.25% each year. Oversight will provide a range for the estimated impact of this proposal using the BAP and Oversight calculations.

Year	Fiscal Year	Estimated Revenue (millions)	Rate Reduction	Estimated Revenue Reduction (millions)
2008	FY 2009	\$553.9	0	0
2009	FY 2010	\$443.1	20%	\$110.78
2010	FY 2011	\$332.3	40%	\$221.56
2011	FY 2012	\$221.6	60%	\$332.34
2012	FY 2013	\$110.8	80%	\$443.12
2013	FY 2014	\$0.0	100%	\$553.90

This proposal could reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
-----------------------------------------	---------------------	---------	---------

GENERAL REVENUE

<u>Revenue reduction</u> - corporate income tax rate reduction	<u>\$0</u>	<u>(\$78,000,000 to \$110,780,000)</u>	<u>(\$156,000,000 to \$221,560,000)</u>
----------------------------------------------------------------	------------	----------------------------------------	-----------------------------------------

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$78,000,000 to \$110,780,000)</u>	<u>(\$156,000,000 to \$221,560,000)</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 fiscal impact on small businesses which are incorporated.

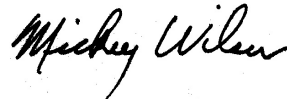
FISCAL DESCRIPTION

This proposal would authorize a gradual reduction in the corporate income tax rate.

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



Mickey Wilson, CPA
Director
January 28, 2008