COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5377-01
Bill No.: HB 2461
Subject: Corporations; Revenue Dept.; Taxation and Revenue - General
Type: Original
Date: April 16, 2008

Bill Summary: Would phase out the corporate franchise tax over 6 years.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	$0 to ($10,100,000)	($28,400,000 to $35,400,000)	($41,200,000 to $46,400,000)
Total Estimated Net Effect on General Revenue Fund	**$0 to ($10,100,000)**	**($28,400,000 to $35,400,000)**	**($41,200,000 to $46,400,000)**

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

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 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
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 the Secretary of State** (SOS) provided this response.

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP), assume there would be no added cost to their organization as a result of this proposal. BAP officials noted that this proposal would eliminate the franchise tax by FY 2013 by lowering the tax rate and raising the minimum filing threshold. BAP notes that $77.8M was collected in both FY06 and FY07 in corporate and bank franchise tax. Therefore general and total state revenues would be reduced similar amounts by FY 2013. BAP defers to the DOR for a precise schedule of graduated revenue losses in FY 2009-2011.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would change the franchise tax rates and would eventually phase out the tax. This would reduce total state revenues.

- Beginning this tax year, franchise tax would equal 1/30th of one percent of the corporation's outstanding shares and surplus amounts, if the corporation's outstanding shares and surplus amounts exceed $1.0 million.
- Beginning on January 01, 2009 the franchise tax would equal the prescribed percentage rate for that year, if the shares and surplus exceed the threshold of $10.0 million and the corporation pays 50% of health insurance premiums. The rate would change for succeeding years.
- The 2009 rate would be 1/30th of one percent.
- The 2010 rate would be 1/50th of one percent.
- The 2011 rate would be 1/70th of one percent.
- The 2012 rate would be 1/90th of one percent.
- For tax years beginning on or after January 01, 2013, no franchise tax would be imposed.

The Franchise Tax Section would not see a reduction in employees until late in 2015 due to customers filing amended returns, as the statute of limitations would be open for three years. Taxation assumes that once this legislation comes to fruition, personnel handling these responsibilities would be placed elsewhere within the Department.

DOR officials provided Oversight their franchise tax collections of $116 million for FY 2005, $69 million for FY 2006, and $71 million for FY 2007. In addition, DOR provided 2005 corporate taxable share and surplus amounts of $35 billion for corporations with from $1 million to $10 million and $190 billion for corporations over $10 million.

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

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

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would change the annual franchise tax rates and the threshold that must be met by the corporation's outstanding shares and surplus. Beginning in January 2009 the threshold is fixed at $10 million; and the tax rate is 1/30 of one percent in 2009, 1/50 of one percent in 2010, 1/70 of one percent in 2011, and 1/90 of one percent in 2012. The franchise tax would be phased out in 2013.

EPARC used the most recent available corporate data (2005) and reported results as follows. The table divides corporations into those with assets in Missouri only, and those with assets in Missouri and in other locations. ($ Millions)

Year	Franchise tax on companies with all assets in Missouri	Franchise tax on companies with assets in Missouri and elsewhere	Total franchise taxes	Revenue reduction
2009	$13.7	$56.8	$70.5	
2010	$8.2	$34.1	$42.3	$28.2
2011	$5.9	$24.3	$30.2	$40.3
2012	$4.6	$18.9	$23.5	$47.0

In response to a similar proposal in the previous session (SB 590 LR 2420-02, 2007) EPARC provided an estimate of $6.6 million for the impact in the first year when the threshold changed but the rate remained fixed.

Oversight notes that the full impact of the changes in the threshold for franchise taxes would be effective only for corporations which offer health insurance to all full-time employees and pay at least fifty percent of the premium. The franchise tax would be completely phased out in 2013; however, in FY 2009, FY 2010, and FY 2011, corporations which do not meet that requirement would have a lesser reduction in franchise taxes due.

ASSUMPTION (continued)

Oversight will assume that reported corporate share and surplus totals would remain constant from 2007 through 2013. Oversight notes that for each year, taxable shares plus surplus would be taxable after a threshold of $10 million for corporations which offer and pay fifty percent of employee health insurance; otherwise, the threshold is $1 million. Thus, the minimum amount of taxable shares and surplus each year would be $190 billion and the maximum would be $225 billion.

FY 2008, based on 2005 shares and surplus, the tax was:

$225 billion x 1/30% =	$73,400,000

For FY 2009, the lowest tax (maximum reduction) would be:

$190 million shares and surplus x 1/30% =	$63,300,000
and the reduction in revenue would be ($73,400,000 - $63,300,000):	$10,100,000

The highest tax (minimum reduction) would be:

$225 billion shares and surplus x 1/30% =	$73,400,000
and the reduction would be ($73,400,000 - $73,400,000) =	$0

For FY 2010, the lowest tax (maximum reduction) would be:

$190 million shares and surplus x 1/50% =	$38,000,000
and the reduction in revenue would be ($73,400,000 - $63,300,000):	$35,400,000

The maximum tax (minimum reduction) would be:

$225 billion shares and surplus x 1/50% =	$45,000,000
and the reduction would be ($73,400,000 - $45,000,000) =	$28,400,000

ASSUMPTION (continued)

For FY 2010, the lowest tax (maximum reduction) would be:

$190 million shares and surplus x 1/70% =	$27,000,000
and the reduction in revenue would be ($73,400,000 - $27,000,000):	$46,400,000

The maximum tax (minimum reduction) would be:

$225 billion shares and surplus x 1/70% =	$32,100,000
and the reduction would be ($73,400,000 - $32,100,000) =	$41,200,000

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Revenue reduction - franchise tax	$0 to ($10,100,000)	($28,400,000 to $35,400,000)	($41,200,000 to $46,400,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0 to ($10,100,000)**	**($28,400,000 to $35,400,000)**	**($41,200,000 to $46,400,000)**

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.

FISCAL DESCRIPTION

This proposal would phase out the corporate franchise tax over 6 years.

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 the Secretary of State
Office of Administration
Division of Budget and Planning
Department of Revenue
University of Missouri
Economic and Policy Analysis Research Center

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April 16, 2008