

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1464H.011
 Bill No.: HB 660
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Corporations;
 Department of Revenue; Business and Commerce
 Type: Original
 Date: January 27, 2023

Bill Summary: This proposal phases out the corporate income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2029)
General Revenue Fund*	(\$88,882,835)	(\$266,917,854)	(\$444,952,874)	(\$712,140,077)
Total Estimated Net Effect on General Revenue	(\$88,882,835)	(\$266,917,854)	(\$444,952,874)	(\$712,140,077)

*The impact for FY 2024 is smaller because it reflects a partial year (6 months).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2029)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2029)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2029)
Total Estimated Net Effect on FTE	0	0	0	\$0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2029)
Local Government*	\$0	(\$13,198,166)	(\$26,396,332)	(\$52,792,665)

*Oversight notes per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. Oversight further notes that the financial institutions tax is distributed to GR (2%) and local funds (98%) on an annual basis and that tax payments for tax year 1 are distributed in FY2.

FISCAL ANALYSIS

ASSUMPTION

Section 143.071 Corporate Income Tax Reduction

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal will reduce the corporate income tax by 1.0% per year, starting with tax year 2024. There shall be no corporate income tax beginning with tax year 2027.

B&P notes that under Section 148.720, RSMo, the financial institutions tax (formerly known as the bank franchise taxes) (Sections 148.030, 148.140, and 148.620, RSMo.) shall be reduced by a proportional amount to any reduction in the corporate income tax. Such reduction shall occur in the calendar year in which the corporate tax rate is reduced. Table 1 shows the proposed tax rates for corporations and the corresponding reduced financial institution tax rates.

Table 1: Proposed Corporate
Tax Rate

Tax Year	Corporate Rate	Franchise Tax Rate
2023	4.00%	4.48%
2024	3.00%	3.36%
2025	2.00%	2.24%
2026	1.00%	1.12%
2027	0.00%	0.00%
2028	0.00%	0.00%

Corporate Income Tax

In FY22, net corporate tax collections were \$711,062,676 at a tax rate of 4.0%.

B&P estimates that reducing the corporate income tax could reduce GR by \$177.8M beginning with tax year 2024. Once fully implemented, B&P estimates this provision could reduce corporate income tax collections by \$711.1M annually.

However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY24. Based on historic remittance patterns, B&P notes that corporate income tax collections are split approximately 50/50 between fiscal years. Table 2 shows the estimate impact on general revenue by fiscal year.

Table 2: Impact to GR
 from Corporate Rate
 Reduction

Tax Year	GR Impact
FY24	(\$88,882,835)
FY25	(\$266,648,504)
FY26	(\$444,414,173)
FY27	(\$622,179,842)
FY28	(\$711,062,676)
FY29	(\$711,062,676)

Financial Institution Tax

B&P notes that the financial institution tax is paid annually in the fiscal year following the end of a calendar year. In FY22, financial institutions tax collections were \$53,870,066 at a tax rate of 4.48%.

B&P notes that the financial institutions tax is distributed to GR (2%) and local funds (98%) on an annual basis and that tax payments for tax year 1 are distributed in FY2. For example: tax payments for 2024 will be collected and distributed during FY25. Table 3 shows the estimated impact on state and local funds by fiscal year.

Table 3: State and Local Impact from
 Brank Franchise Tax Reduction

Tax Year	GR (2%)	Local (98%)
FY24	\$0	\$0
FY25	(\$269,350)	(\$13,198,166)
FY26	(\$538,701)	(\$26,396,332)
FY27	(\$808,051)	(\$39,594,499)
FY28	(\$1,077,401)	(\$52,792,665)
FY29	(\$1,077,401)	(\$52,792,665)

Corporate Summary

B&P estimates that this provision may reduce TSR and GR by \$88.9M in FY24. Once fully implemented, this proposal could annually reduce TSR and GR by \$712.1M. This proposal could also reduce local funds by \$52.8M annually once fully implemented. Table 4 shows the impacts by state and local fund by fiscal year.

Table 4: State and Local Impact from Corporate Rate Reduction

	<u>FY24</u>	<u>FY25</u>	<u>FY26</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$88,882,835)	(\$266,648,504)	(\$444,414,173)
Financial Institutions Tax Rate Reduction	\$0	(\$269,350)	(\$538,701)
Total GR Loss	(\$88,882,835)	(\$266,917,854)	(\$444,952,874)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	\$0	(\$13,198,166)	(\$26,396,332)

Table 4: State and Local Impact from Corporate Rate Reduction (cont.)

	<u>FY27</u>	<u>FY28</u>	<u>FY29</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$622,179,842)	(\$711,062,676)	(\$711,062,676)
Financial Institutions Tax Rate Reduction	(\$808,051)	(\$1,077,401)	(\$1,077,401)
Total GR Loss	(\$622,987,893)	(\$712,140,077)	(\$712,140,077)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	(\$39,594,499)	(\$52,792,665)	(\$52,792,665)

Officials from the **Department of Revenue** assume starting January 1, 2024 this proposal will reduce the corporate tax rate 1% a year for the next four years. The current corporate tax rate is 4%. Therefore, starting January 1, 2028 there will be no tax on the Missouri taxable income of corporations. FY 2022 net collections were \$711.1M. Since this proposal is effective January 1, 2024, it is assumed only 6 months of collections will be impacted in FY 2024.

Impact to GR from Corporate Rate Reduction

Fiscal Year	Corporate Rate	GR Impact
2023 Current	4.00%	\$0
2024	3.00%	(\$88,882,835)
2025	2.00%	(\$266,648,504)
2026	1.00%	(\$444,414,173)
2027	0.00%	(\$622,179,842)
2028	0.00%	(\$711,062,676)

Per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. This proposal will eventually be a 100% reduction in the corporate tax so the financial institutions tax would also have a 100% decrease. The financial institutions tax is currently 4.48% with 98% of it distributed to locals and 2% retained by general revenue. In FY 2022, they collected \$53,870,066 in tax. Per Section 148.720 the reduction in the financial institutions tax is reduced in the following year. The tax rates are expected to be:

State and Local Impact from Bank Franchise Tax Reduction

Tax Year	Franchise Tax Rate	GR (2%)	Local (98%)
FY 23			
Current	4.48%	\$0	\$0
FY24	3.36%	\$0	\$0
FY25	2.24%	(\$269,350)	(\$13,198,166)
FY26	1.12%	(\$538,701)	(\$26,396,332)
FY27	0.00%	(\$808,051)	(\$39,594,499)
FY28	0.00%	(\$1,077,401)	(\$52,792,665)

The Department used its internal Income Tax Model that contains confidential taxpayer data from the 2020 tax year (the most recent complete tax year data) to calculate the fiscal impact.

State and Local Impact from Corporate Rate Reduction

	<u>FY24</u>	<u>FY25</u>	<u>FY26</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$88,882,835)	(\$266,648,504)	(\$444,414,173)
Financial Institutions Tax Rate Reduction	\$0	(\$269,350)	(\$538,701)
Total GR Loss	(\$88,882,835)	(\$266,917,854)	(\$444,952,874)
<u>Local Impact</u>	<u>FY24</u>	<u>FY25</u>	<u>FY26</u>
Financial Institutions Tax Rate Reduction	\$0	(\$13,198,166)	(\$26,396,332)

State and Local Impact from Corporate Rate Reduction (cont.)

	<u>FY27</u>	<u>FY28</u>	<u>FY29</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$622,179,842)	(\$711,062,676)	(\$711,062,676)
Financial Institutions Tax Rate Reduction	(\$808,051)	(\$1,077,401)	(\$1,077,401)
Total GR Loss	(\$622,987,893)	(\$712,140,077)	(\$712,140,077)
<u>Local Impact</u>	<u>FY27</u>	<u>FY28</u>	<u>FY29</u>

Financial Institutions Tax Rate Reduction	(\$39,594,499)	(\$52,792,665)	(\$52,792,665)
-------------------------------------------	----------------	----------------	----------------

This entire proposal will result in changes needing to be made to their computer programs and forms. These changes are estimated at \$7,193.

Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the programming and form costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Department of Commerce and Insurance** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact for this agency in the fiscal note.

According to DOR reports, **Oversight** notes the following collections in corporate income tax and financial institutions tax for FY 2021 & FY 2020.

	Corporate Income Tax	Franchise Tax
FY 2022 (as responded above)	\$711,062,676	\$53,870,060
FY 2021	\$798,110,636	\$38,617,438
FY 2020	\$463,129,080	\$48,890,911

Oversight will utilize DOR and B&P's estimated impact for this proposal.

<u>FISCAL</u> <u>IMPACT – State</u> <u>Government</u>	FY 2024 (6 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2029)
GENERAL REVENUE FUND				
<u>Revenue Loss -</u> §143.071 – Changes to Corporate Tax and Financial Institutions Tax	<u>(\$88,882,835)</u>	<u>(\$266,917,854)</u>	<u>(\$444,952,874)</u>	<u>(\$712,140,077)</u>
ESTIMATED NET EFFECT ON GENERAL	<u>(\$88,882,835)</u>	<u>(\$266,917,854)</u>	<u>(\$444,952,874)</u>	<u>(\$712,140,077)</u>

REVENUE FUND				
<u>FISCAL IMPACT – Local Government</u>	FY 2024 (6 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2029)
LOCAL POLITICAL SUBDIVISIONS				
<u>Revenue Loss - \$143.071 – Decrease of financial institutions tax</u>	\$0	(\$13,198,166)	(\$26,396,332)	(\$52,792,665)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	\$0	(\$13,198,166)	(\$26,396,332)	(\$52,792,665)

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that is obligated to pay corporate income tax or bank franchise tax, as such small business would pay a reduced amount of such tax(es).

FISCAL DESCRIPTION

Currently, the taxable income of corporations is equal to 4% of Missouri taxable income. This bill phases out the Missouri state corporate income tax over a period of years using the following timetable:

Beginning January 1, 2024, the taxable income of corporations will equal 3% of Missouri taxable income.

Beginning January 1, 2025, the taxable income of corporations will equal 2% of Missouri taxable income.

Beginning January 1, 2026, the taxable income of corporations will equal 1% of Missouri taxable income.

For all tax years beginning on or after January 1, 2027, there shall be no tax imposed upon the Missouri taxable income of corporations.

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

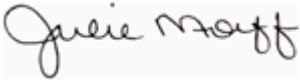
L.R. No. 1464H.011

Bill No. HB 660

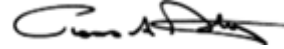
Page 9 of 9

January 27, 2023

Department of Revenue
Office of Administration - Budget and Planning
Department of Commerce and Insurance



Julie Morff
Director
January 27, 2023



Ross Strobe
Assistant Director
January 27, 2023