

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4543H.01P
 Bill No.: Perfected HB 2274
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Corporations;
 Department of Revenue; Business and Commerce
 Type: Original
 Date: March 12, 2024

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2029)
General Revenue**	(\$99,494,051)*	(\$320,591,943)	(\$541,689,835)	Less than (\$884,391,568)
Total Estimated Net Effect on General Revenue	(\$99,494,051)*	(\$320,591,943)	(\$541,689,835)	Less than (\$884,391,568)

*The fiscal impact for FY2025 is lesser because FY2025 is a partial year (6 months)

****Oversight** notes the fiscal impact estimated by DOR & B&P is based on net corporate income tax collections, therefore this estimate already includes the potential that corporate tax credits would no longer be redeemed upon full phase out of the corporate income tax, beginning in tax year 2028 (FY2029).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	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 2025	FY 2026	FY 2027	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 2025	FY 2026	FY 2027	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 2025	FY 2026	FY 2027	Fully Implemented (FY 2029)
Local Government*	\$0	\$0	\$0	\$0

***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. Section 143.071.6(2) of the proposal states the proposed reductions will not cause a reduction or elimination of the financial institutions tax under Chapter 148. Therefore, this provision will not have a fiscal impact to local political subdivisions.

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 by 1.0% each year, starting with tax year 2025. Beginning with tax year 2028, there shall no longer be a tax on corporate income.

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. However, **Section 143.071.6(2)** states that the proposed tax rate reductions and elimination under Section 143.071 shall not impact the financial institutions tax.

Table 1: Proposed
Corporate Tax Rate

Tax Year	Corporate Rate
Current	4.00%
2025	3.00%
2026	2.00%
2027	1.00%
2028	0.00%

Corporate Income Tax

In FY23, net corporate tax collections were \$884,391,568 at a tax rate of 4.0%.

B&P estimates that reducing the corporate income tax could reduce GR by \$221,097,892 beginning with tax year 2025. Once fully implemented, B&P estimates this provision could reduce GR by \$884,391,568 annually. Table 2 shows the estimated impact by tax year.

Table 2: Est. Corp
Impact by Tax Year

Tax Year	GR Impact
2025	(\$221,097,892)
2026	(\$442,195,784)
2027	(\$663,293,676)
2028	(\$884,391,568)

However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY25. Based on actual collections, B&P estimates that corporate tax collections are received 45% in FY1 and 55% in FY2. Therefore, B&P will reflect the potential loss with the same 45/55 split. Table 3 shows the estimated impact on general revenue by fiscal year.

Table 3: Est. Corp Impact by Fiscal Year

Fiscal Year	GR Impact
FY25	(\$99,494,051)
FY26	(\$320,591,944)
FY27	(\$541,689,836)
FY28	(\$762,787,728)
FY29	(\$884,391,568)

B&P estimates that this proposal could reduce TSR and GR by \$99,494,051 in FY25. Once fully implemented, this proposal could reduce TSR and GR by \$884,391,568 annually.

B&P notes that **Section 143.071.6(1)** would prevent the use of corporate tax income tax credits once the corporate income tax has been eliminated. B&P notes that the average amount of tax credits taken against corporate income tax was \$90,420,889 from FY21 – FY23. However, B&P also notes that corporations could still sell or transfer tax credits. B&P further assumes that this would not impact withholding retention tax credits as they are not taken against corporate income tax, but are instead a retention of employee’s individual income tax.

For purposes of this fiscal note, **Oversight** assumes corporate tax credit redemptions are taxes that are not collected and are, by definition, excluded from total and net collections reported in B&P’s numbers. (Gross corporate taxes due less redeemed tax credits equals total collections. Total collections less refunds equals net collections.) Therefore, Oversight will not show an offset from redeemed tax credits as they are already deducted from the numbers provided and doing so would result in a double count of savings. Additionally, Oversight notes some corporations maybe be able to sell or transfer tax credits and some corporations will still be able to retain withholdings which are related to individual income taxes.

Upon further inquiry, **B&P** provided the following history of corporate income tax credit redemptions:

Fiscal Year	Corporate Income
2023	\$89,739,915
2022	\$91,421,279
2021	\$90,101,472
2020	\$95,508,240

2019	\$103,844,085
2018	\$115,111,358
2017	\$104,192,140
2016	\$73,179,564
2015	\$76,387,749
2014	\$76,538,072
2013	\$66,774,247
2012	\$64,317,862
2011	\$57,341,705
2010	\$58,173,147
2009	\$82,043,897
2008	\$74,718,655
2007	\$87,810,606
2006	\$78,821,069
2005	\$68,676,453

Officials from the **Department of Revenue (DOR)** assume starting January 1, 2025, 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 2023 net collections were \$884 million. Since this proposal is effective January 1, 2025, it is assumed only 6 months of collections will be impacted in FY 2025.

DOR uses a 45%/55% split when converting corporate tax from tax year to fiscal year.

Fiscal Year	Corporate Rate	GR Impact
2024 current	4.00%	\$0
2025	3.00%	(\$99,494,051)
2026	2.00%	(\$320,591,943)
2027	1.00%	(\$541,689,835)
2028	0.00%	(\$762,787,727)
2029+	0.00%	(\$884,391,568)

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. However, section 143.071.6(2) states this proposal will not cause a reduction or elimination of the financial institutions tax under Chapter 148. Therefore, this provision will not have a fiscal impact.

This proposal in Section 143.071.6(1) states that upon the corporate tax rate being eliminated, corporations would no longer be allowed to claim tax credits. Many of the state tax credits are allowed to be sold, transferred and assigned and it is assumed corporations would continue that

practice. Additionally, some companies may choose to no longer participate in tax credit programs, freeing up credits for other organizations to claim.

This entire proposal will result in changes needing to be made to the department’s computer programs and forms. These changes are estimated at \$8,923.

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 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:

<u>Fiscal Year</u>	<u>Corporate Income Tax</u>
FY 2023 (as responded above)	\$884,391,568
FY 2022	\$711,062,676
FY 2021	\$798,110,636

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

Oversight will also reflect a savings to the Department of Revenue for administration of the corporate income tax. Oversight assumes DOR will have savings related to processing of the returns, processing of the tax credits, and the conducting of audits. The corporate income tax is eliminated beginning January 1, 2028; however, Oversight assumes it will take some time to wrap up all corporate tax matters.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (6 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2029)
GENERAL REVENUE FUND				
<u>Savings</u> - DOR – no longer administering the corporate income tax starting tax year 2028	\$0	\$0	\$0	Unknown

<u>FISCAL IMPACT – State Government</u>	FY 2025 (6 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2029)
Revenue Loss - §143.071 - Corporate Income Tax Rate Reduction	(\$99,494,051)	(\$320,591,943)	(\$541,689,835)	(\$884,391,568)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$99,494,051)	(\$320,591,943)	(\$541,689,835)	<u>Less than</u> (\$884,391,568)

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (6 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2029)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that is obligated to pay corporate income tax, as such small business would pay a reduced amount of such tax(es), and eventually no corporate income tax.

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:

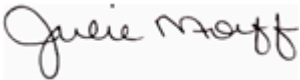
- Beginning January 1, 2025, the taxable income of corporations will equal 3% of Missouri taxable income.
- Beginning January 1, 2026, the taxable income of corporations will equal 2% of Missouri taxable income.
- Beginning January 1, 2027, the taxable income of corporations will equal 1% of Missouri taxable income.
- For all tax years beginning on or after January 1, 2028, there shall be no tax imposed upon the Missouri taxable income of corporations.

Once the corporate tax is fully reduced and eliminated, no corporate income tax credits shall be claimed. However, a corporate taxpayer may redeem a refundable tax credit properly claimed and issued before the corporate tax is eliminated.

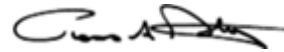
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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



Julie Morff
Director
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Ross Strobe
Assistant Director
March 12, 2024