

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1414H.02C
 Bill No.: HCS for HB 425
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Corporations;
 Department of Revenue; Business and Commerce
 Type: Original
 Date: January 31, 2025

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
General Revenue**	(\$100,463,955)*	(\$323,873,709)	(\$547,283,462)	(\$893,639,013)
Total Estimated Net Effect on General Revenue	(\$100,463,955)*	(\$323,873,709)	(\$547,283,462)	(\$893,639,013)

*The fiscal impact for FY2026 is lesser because FY2026 is a partial year (6 months)

****Oversight** notes the fully implemented 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 2029 (FY2030).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
Total Estimated Net Effect on <u>Other State Funds</u>	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
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 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
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 2026	FY 2027	FY 2028	Fully Implemented (FY 2030)
Local Government	\$0	(\$7,669,434)	(\$15,338,868)	(\$30,677,736)

FISCAL ANALYSIS

ASSUMPTION

Section 143.071 - Corporate Income Tax Rate

Officials from the **Department of Revenue (DOR)** note starting January 1, 2026, this proposal will reduce the corporate tax rate 1.0% a year for the next several years until the rate becomes zero. The current corporate tax rate is 4%. Therefore, starting January 1, 2029, there will be no tax on the Missouri taxable income of corporations. FY 2024 net collections were \$893,012,937. Since this proposal is effective January 1, 2026, it is assumed only 6 months of collections will be impacted in FY 2026.

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 2024, DOR collected \$31,303,812 in net 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:

Tax Year	Corporate Rate	Franchise Tax Rate
Current	4.00%	4.48%
2026	3.00%	3.36%
2027	2.00%	2.24%
2028	1.00%	1.12%
2029	0.00%	0.00%
2030	0.00%	0.00%

The Department used its internal Income Tax Model that contains confidential taxpayer data from the 2022 tax year (the most recent complete tax year data) to calculate the fiscal impact. Based on actual collections, DOR notes that corporate tax collections are received 45% in FY1 and 55% in FY2.

State and Local Impact from Corporate Rate Reduction			
	<u>FY26</u>	<u>FY27</u>	<u>FY28</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$100,463,955)	(\$323,717,190)	(\$546,970,424)
Financial Institutions Tax Rate Reduction	\$0	(\$156,519)	(\$313,038)
Total GR Loss	(\$100,463,955)	(\$323,873,709)	(\$547,283,462)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	\$0	(\$7,669,434)	(\$15,338,868)

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

	<u>FY29</u>	<u>FY30</u>
<u>State Impact</u>		
Corporate Tax Rate Reduction	(\$770,223,658)	(\$893,012,937)
Financial Institutions Tax Rate Reduction	(\$469,557)	(\$626,076)
Total GR Loss	(\$770,693,215)	(\$893,639,013)
<u>Local Impact</u>		
Financial Institutions Tax Rate Reduction	(\$23,008,302)	(\$30,677,736)

DOR notes that approximately 122,980 corporate returns are electronically filed annually, and 3,683 paper returns are processed. Although it eventually eliminates the state corporate income tax, the proposed legislation does NOT eliminate the corporate income tax return filing requirement provided for in Section 143.481(6), RSMo, which is dependent upon the corporation's gross income from sources in Missouri, rather than its Missouri corporate income tax amount.

This proposal will require the Department to change the department's forms (\$2,200), computer programs, corporate (\$7,327) and website. These changes are estimated at \$9,527 annually.

Oversight notes the DOR requests one-time cost for website income-tax changes and updates to comply with the proposed language; however, Oversight notes that DOR receives appropriation for routine website updates and will not show those costs in the fiscal note.

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 2026. Beginning with tax year 2029, 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%
2026	3.00%
2027	2.00%
2028	1.00%
2029	0.00%

Corporate Income Tax

In FY24, net corporate tax collections were \$893,012,937 at a tax rate of 4.0%.

B&P estimates that reducing the corporate income tax could reduce GR by \$223,253,234 beginning with tax year 2026. Once fully implemented, B&P estimates this provision could reduce GR by \$893,012,937 annually. Table 2 shows the estimated impact by tax year.

Table 2: Est. Corp
Impact by Tax Year

Tax Year	GR Impact
2026	(\$223,253,234)
2027	(\$446,506,468)
2028	(\$669,759,703)
2029	(\$893,012,937)

However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY26. 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 estimate impact on general revenue by fiscal year.

Table 3: Est. Corp Impact by Fiscal Year

Fiscal Year	GR Impact
FY26	(\$100,463,955)
FY27	(\$323,717,190)
FY28	(\$546,970,424)
FY29	(\$770,223,658)
FY30	(\$893,012,937)

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 FY24, financial institutions tax collections were \$31,303,812 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 2026 will be collected and distributed during FY27. Table 4 shows the estimated impact on state and local funds by fiscal year.

Table 4: State and Local Impact from Bank Franchise Tax Reduction

Fiscal Year	GR (2%)	Local (98%)
FY26	\$0	\$0
FY27	(\$156,519)	(\$7,669,434)
FY28	(\$313,038)	(\$15,338,868)
FY29	(\$469,557)	(\$23,008,302)
FY30	(\$626,076)	(\$30,677,736)

Tax Credits

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 \$99,006,530 from FY22 – FY24. 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.

B&P further notes that the estimated impact above already accounts for tax credits.

Bill Summary

B&P estimates that this proposal could reduce TSR and GR by \$100,463,955 in FY26. Once fully implemented, this proposal could reduce TSR and GR by \$893,639,013 annually. In addition, this proposal could reduce local revenues by \$30,677,736 annually once fully implemented.

Table 5: State and Local Impact from Corporate Rate Reduction

	<u>FY26</u>	<u>FY27</u>	<u>FY28</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$100,463,955)	(\$323,717,190)	(\$546,970,424)
Financial Institutions Tax Rate Reduction	\$0	(\$156,519)	(\$313,038)
Total GR Loss	(\$100,463,955)	(\$323,873,709)	(\$547,283,462)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	\$0	(\$7,669,434)	(\$15,338,868)

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

	<u>FY29</u>	<u>FY30</u>	<u>FY31</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$770,223,658)	(\$893,012,937)	(\$893,012,937)
Financial Institutions Tax Rate Reduction	(\$469,557)	(\$626,076)	(\$626,076)
Total GR Loss	(\$770,693,215)	(\$893,639,013)	(\$893,639,013)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	(\$23,008,302)	(\$30,677,736)	(\$30,677,736)

Officials from the **Department of Commerce and Insurance** defer to the Office of Administration - Budget and Planning for the potential fiscal impact of this proposal.

According to DOR [reports](#), **Oversight** notes the following tax collections:

Fiscal Year	Corporate Income Tax	Financial Institutions Tax
FY 2024 (as responded above)	\$893,012,937	\$31,303,812
FY 2023	\$1,061,787,981	\$15,825,000
FY 2022	\$894,175,267	\$53,870,066
FY 2021	\$798,110,636	\$38,617,438

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

<u>FISCAL IMPACT – State Government</u>	FY 2026 (6 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2030)
GENERAL REVENUE FUND				
<u>Revenue Reduction - §143.071 - Reduction in corporate tax rate</u>	(\$100,463,955)	(\$323,717,190)	(\$546,970,424)	(\$893,012,937)
<u>Revenue Loss - §143.071 - Financial Institutions Tax Rate Reduction</u>	\$0	(\$156,519)	(\$313,038)	(\$626,076)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$100,463,955)	(\$323,873,709)	(\$547,283,462)	(\$893,639,013)

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (6 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2030)
LOCAL POLITICAL SUBDIVISIONS				
<u>Revenue Loss - §143.071 - Financial Institutions Tax Rate Reduction</u>	<u>\$0</u>	<u>(\$7,669,434)</u>	<u>(\$15,338,868)</u>	<u>(\$30,677,736)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>(\$7,669,434)</u>	<u>(\$15,338,868)</u>	<u>(\$30,677,736)</u>

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), 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:

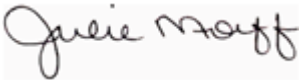
- (1) Beginning January 1, 2026, the taxable income of corporations will equal 3% of Missouri taxable income;
- (2) Beginning January 1, 2027, the taxable income of corporations will equal 2% of Missouri taxable income;
- (3) Beginning January 1, 2028, the taxable income of corporations will equal 1% of Missouri taxable income; and
- (4) For all tax years beginning on or after January 1, 2029, 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 will 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



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January 31, 2025



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