

COMMITTEE ON LEGISLATIVE RESEARCH
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3889-02
Bill No.: HB 1637
Subject: Corporations; Revenue Dept.; Taxation and Revenue-General and Income
Type: Original
Date: February 25, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	\$0	\$0	\$0
Outstanding Schools Trust	\$0	\$0	\$0
Total Estimated Net Effect on All State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on All Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	(\$24,700,000)	(\$25,000,000)	(\$25,300,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation restores the full deductibility of federal income taxes for corporate taxpayers beginning January 1, 2002.

The corporate tax system (COINS) will need modifications to add error and notice messages and to change the forms and reports produced. DOR anticipates these modifications will take 87 hours of contract labor, at a cost of \$2,902. However, because the costs are minimal, DOR will absorb the costs for this project. Therefore, there is little or no administrative impact to the Department of Revenue.

Officials of the **Office of Administration, Budget and Planning (BAP)** state this proposal restores the full federal income tax (FIT) deduction for corporations. The corporate income tax loss due to this proposal would be (\$24.7 million) for FY 2003, (\$25 million) in FY 2004 and (\$25.3 million) for FY 2005. These estimates are from the Consensus Revenue Forecast and Budget & Planning's Corporate Income Tax Simulator. One percent annual growth is assumed. The revenue reductions from this proposal will require an equivalent amount of general revenue in order to fully fund the Foundation Formula.

Oversight will reflect the impact of this proposal as a loss to local school districts.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Loss - General Revenue Fund</u>			
Increase in Federal Income Tax Deduction for Corporations	(\$24,700,000)	(\$25,000,000)	(\$25,300,000)
<u>Savings to General Revenue Fund</u>			
Reduction in funds transferred to Outstanding Schools Trust Fund	<u>\$24,700,000</u>	<u>\$25,000,000</u>	<u>\$25,300,000</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

OUTSTANDING SCHOOLS TRUST FUND

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<u>Loss - Outstanding Schools Trust Fund</u>			
Reduction in funds transferred from General Revenue Funds	(\$24,700,000)	(\$25,000,000)	(\$25,300,000)
<u>Savings to Outstanding Schools Trust Fund</u>			
Reduction in funds transferred to local school districts	<u>\$24,700,000</u>	<u>\$25,000,000</u>	<u>\$25,300,000</u>
 ESTIMATED NET EFFECT TO OUTSTANDING SCHOOLS TRUST FUND	 <u>\$0</u>	 <u>\$0</u>	 <u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
SCHOOL DISTRICTS			
<u>Loss - Local School Districts</u>			
Reduction in funds transferred from The Outstanding Schools Trust Fund	<u>(\$24,700,000)</u>	<u>(\$25,000,000)</u>	<u>(\$25,300,000)</u>
 ESTIMATED NET EFFECT ON SCHOOL DISTRICTS	 <u>(\$24,700,000)</u>	 <u>(\$25,000,000)</u>	 <u>(\$25,300,000)</u>

FISCAL IMPACT - Small Business

This legislation may result in a small reduction in Missouri income taxes for corporations.

DESCRIPTION

This bill authorizes a 100% state income tax deduction for federal income taxes paid by corporations. Under current law, corporations are allowed to deduct 50% of the federal income tax they paid.

DESCRIPTION (continued)

The bill will apply to tax year 2002 and thereafter.

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

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large initial "M".

Mickey Wilson, CPA
Acting Director
February 25, 2002