COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1083-03
Bill No.: Perfected HCS for HB 458
Subject: Corporations; Revenue Dept.; Taxation and Revenue - General
Type: Original
Date: March 13, 2007

Bill Summary: Would change the annual franchise tax rates and income threshold amounts for corporations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue *	0	$0 to ($2,256,200)	$0 to ($Unknown)
Total Estimated Net Effect on General Revenue Fund *	**$0**	**$0 to ($2,256,200)**	**$0 to (Unknown)**

* Unknown expected to exceed $100,000.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
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 2008	FY 2009	FY 2010
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) responded as follows. 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 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 **Department of Revenue** (DOR) assumed this proposal would have no fiscal impact on their organization until late in 2015 since the statute of limitations is open for three years and taxpayers could be filing amended returns.

Information Technology (ITSD/DOR) assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD/DOR estimates that this legislation could be implemented utilizing 3 existing CIT III for 3 months at a cost of $37,674.

Officials from the **Office of Administration**, **Division of Budget and Planning** (BAP) assume this proposal would eliminate the corporation franchise tax in graduated increments by FY10. BAP notes that $119.4M was collected in corporate and bank franchise tax in FY05, and $77.8M was collected in FY06. Therefore general and total state revenues would be reduced similar amounts by FY10. BAP does not have the necessary detail to estimate the specific incremental impacts in immediate fiscal years, nor does BAP have information to know which corporations may or may not meet the insurance requirements, and therefore defers to the DOR for these estimates.

BAP assumes there would be no added cost to their organization as a result of this proposal.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) calculated franchise taxes due as follows:

Based on 2002 data, the most recent available, 2007 taxes (FY 2008) would be $288,537,191. In 2008 (FY 2009) franchise taxes would be $280,123,190, a reduction of $8,414,001 (2.9%). In 2009 (FY 2010) franchise taxes would be $140,061,595, a reduction of $148,475,596 (51.4%) from 2007 levels.

Oversight has estimated the fiscal impact of this proposal as follows:

Oversight will use the EPARC estimated percentages of revenue reductions, and assumes that any savings to be realized by the Department of Revenue from not processing corporate franchise tax returns would be beyond the scope of this fiscal note. Oversight notes that the changes in threshold and rates 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 2012; however, in FY 2008, FY 2009, and FY 2010, corporations which do not meet that requirement would have no reduction in franchise taxes due.

1, For 2007 (FY 2008) there would be no franchise tax on corporations with assets under $1 million and the tax rate for corporations subject to the tax would be one-thirtieth of one percent; the same as existing provisions.

2. For 2008 (FY 2009) there would be no corporate franchise tax on corporations with assets under $15 million. The tax rate would remain at one-thirtieth of one percent and the reduction in corporate franchise taxes would be 2.9% of $77,800,000 or $2,256,200.

3. For 2009 (FY 2010) there would be no corporate franchise tax on corporations with assets under $15 million (no change from 2008) and the tax rate would be one-sixtieth of one percent. The reduction in corporate franchise taxes would be 51.4% of $77,800,000 or $39,989,200.

Oversight was unable to obtain any responses on the phase-in of the bank tax credit. Therefore, Oversight assumes an unknown loss to the General Revenue Fund from this credit beginning in FY 2010.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
Loss - Department of Revenue			
Phase-out of the corporate franchise tax	$0	$0 to ($2,256,200)	$0 to ($39,989,200)
Loss - General Revenue			
Phase-in of bank credit *	$0	$0	(Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND *	**$0**	**$0 to ($2,256,200)**	**$0 to (Unknown)**

* Unknown expected to exceed $100,000.

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would have a fiscal impact to corporate small businesses and to small businesses involved in banking.

FISCAL DESCRIPTION

This proposal would change the annual franchise tax rates and income threshold amounts for corporations, and would phase in a banking tax credit.

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 Policy and Research Center

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Director
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