

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0221-01
Bill No.: SB 15
Subject: Corporations; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: March 24, 2011

Bill Summary: Would allow full deductibility of all federal income tax liability for Missouri income tax purposes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$0	(\$462,550,000)	(\$462,550,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$462,550,000)	(\$462,550,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> 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 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
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 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume the proposed legislation would not result in additional costs or savings to their organization.

BAP officials stated that this proposal would increase to 100 percent the deductibility of federal income taxes paid from state income tax, for both corporations and individuals. BAP officials assume the Department of Revenue or EPARC would have more precise data on the potential impact of this legislation.

Officials from the **Department of Revenue** (DOR) assume this proposal would allow individuals and corporations to claim a full deduction of their federal income tax liability for tax years beginning January 1, 2012.

DOR would need to make Individual and Corporate Income Tax form changes, and DOR and ITSD-DOR would need to make changes to the individual income tax processing system (MINITS) and to the corporation income tax processing system (COINS).

Administrative impact

DOR officials assume that Personal Tax would require one FTE additional Revenue Processing Technician I (Range 10, Step L) for every 19,000 individual income tax errors created and one FTE additional Revenue Processing Technician I (Range 10, Step L) for every 2,400 pieces of correspondence. DOR officials also assume that Corporate Tax would require one FTE additional FTE Revenue Processing Technician I (Range 10, Step L) for every 5,200 corporate income tax errors created and one FTE additional FTE Revenue Processing Technician I (Range 10, Step L) for for every 2,080 pieces of correspondence. Finally, DOR officials assume that Collections and Tax Assistance would require one FTE additional Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contacts annually to the non-delinquent tax line and and one FTE additional Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually to the field offices.

The DOR estimate of administrative cost to implement this proposal including four additional employees and the related benefits, equipment, and expense totaled \$149,380 for FY 2012, \$160,326 for FY 2013, and \$161,993 for FY 2014.

ASSUMPTION (continued)

DOR submitted a cost estimate to implement a similar proposal in the 2008 session (HB 1645 LR 3635-01) which included one additional FTE, and a response in the 2007 session (HB 621 LR, 0226-01) which indicated the proposal would have no fiscal impact on their organization.

Oversight will use the DOR response from the 2007 session. If unanticipated costs are incurred or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would, if enacted, allow full deductibility from state income tax of all federal income tax liability for individuals and corporations.

Corporate Income Tax Simulation

Using the latest corporate income tax data from 2008, EPARC noted that allowing corporations to deduct their entire federal income tax liability would increase that deduction from \$43.7 billion to \$87.4 billion. The EPARC corporate tax simulation calculated a corresponding reduction in corporate income tax liability from \$369.862 million to \$319.102 million, and that reduction in corporate income tax liability would translate into a \$50.76 million reduction in Net General Revenue.

Individual Income Tax Simulation

The EPARC personal income tax simulation calculated a decrease in personal income tax from the Missouri 2009 baseline analysis, which indicated a Net Tax Due of \$4,395.185 million, to an estimated Net Tax Due of \$3,983.395 million. That translates into a \$411.79 million reduction in Net General Revenue.

Oversight will use the EPARC estimate, and for fiscal note purposes only, will assume the same revenue reduction for every fiscal year. Oversight assumes that income taxes for 2012, the year when the proposal would become effective, would be collected in FY 2013.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Revenue reduction - full deductibility of federal personal income taxes</u>	<u>\$0</u>	<u>(\$411,790,000)</u>	<u>(\$411,790,000)</u>
<u>Revenue reduction - full deductibility of federal corporate income taxes</u>	<u>\$0</u>	<u>(\$50,760,000)</u>	<u>(\$50,760,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$462,550,000)</u>	<u>(\$462,550,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which are subject to income tax.

FISCAL DESCRIPTION

The proposed legislation would allow full deductibility of all federal income tax liability for Missouri income tax purposes.

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

L.R. No. 0221-01
Bill No. SB 15
Page 6 of 6
March 24, 2011

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Revenue
University of Missouri
Economic and Policy Analysis Research Center



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