COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0336-01
Bill No.: SB 19
Subject: Corporations; Revenue Dept; Taxation and Revenue - General
Type: Original
Date: January 21, 2011

Bill Summary: Would phase out the corporate franchise tax over five years.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	$0	($27,825,559)	($42,218,090)
Total Estimated Net Effect on General Revenue Fund	**$0**	**($27,825,559)**	**($42,218,090)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
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 2012	FY 2013	FY 2014
Total Estimated Net Effect on All 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 **Department of Revenue** (DOR) assume this proposal would change the corporate franchise and bank franchise tax rates and would eventually phase out the tax, which would create an annual negative impact to total state revenue in FY12 of $25.3 million, rising to $79.6 million in FY16.

DOR officials stated that the Department and the Office of Administration, Information Technology Services Division (ITSD-DOR) would need to make programming changes to the corporation income tax processing systems (COINS and CAFÉ), Corp E-file System and the Financial Institutions Tax System. DOR officials estimated the IT portion of the fiscal impact at $26,712, based on 1,008 FTE hours.

Oversight assumes that ITSD-DOR is provided with core funding to handle a certain amount of activity each year, and assumes ITSD-DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD-DOR could request funding through the appropriation process.

DOR officials estimated the revenue reduction for this proposal as follows:

Corporate Franchise Tax - based on calendar year 2009 collections:

* $23.5 M for calendar year 2012
* $35.7 M for calendar year 2013
* $43.0 M for calendar year 2014
* $48.1 M for calendar year 2015
* $73.9 M for calendar year 2016 and thereafter.

Bank Franchise Tax - based on fiscal year 2009 collections:

* $1.8 M for calendar year 2012
* $2.8 M for calendar year 2013
* $3.3 M for calendar year 2014
* $3.7 M for calendar year 2015
* $5.7 M for calendar year 2016 and thereafter.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume that if enacted, this legislation would gradually phase-out the corporate franchise tax over a five year period.

For the tax year 2011, the rate would remain at one-thirtieth of one percent and the threshold amount would remain at $10 million dollars. For the tax year 2012, the rate would be reduced to one forty-fourth of one percent. For the tax year 2013, the rate would be reduced to one fifty-eighth of one percent. For the tax year 2014, the rate would be reduced to one seventy-second of one percent. For the tax year 2015, the rate shall decrease to one eighty-sixth of one percent. Effective January 1, 2016, no corporate franchise tax would be imposed.

The following estimates were generated using corporate tax data from 2007. This table reports the potential total franchise tax due for corporations with assets greater than $10 million in Missouri for the years 2011 through 2016 due to this legislation.

Year	Franchise Tax Rate	Franchise Tax Due	Reduction in Franchise Tax
2011	1/30 of 1%	$76,703,328	$0
2012	1/44 of 1%	$52,297,724	$24,405,604
2013	1/58 of 1%	$36,674,135	$37,029,193
2014	1/72 of 1%	$31,959,720	$44,743,608
2015	1/86 of 1%	$26,756,975	$49,946,353
2016	None	$0	$76,703,328

DOR officials also provided franchise tax collections of $87.5 million for the year ended June 30, 2010.

Oversight notes that corporate franchise tax collections vary from year to year; however, based on 2010 collections, Oversight assumes the revenue reduction for this proposal can be calculated as shown in the following chart.

ASSUMPTION (continued)

Year	Franchise Tax Rate	Franchise Tax Due	Reduction in Franchise Tax
2011	1/30 of 1%	$87,451,757	$0
2012	1/44 of 1%	$59,626,198	$27,825,559
2013	1/58 of 1%	$45,233,667	$42,218,090
2014	1/72 of 1%	$36,438,232	$51,013,525
2015	1/86 of 1%	$30,506,427	$56,495,330
2016	None	$0	$87,451,757

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
Revenue reduction - franchise tax	$0	($27,825,559)	($42,218,090)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**($27,825,559)**	**($42,218,090)**

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would impact those small businesses which are currently subject to the franchise tax.

FISCAL DESCRIPTION

The proposed legislation would phase out the corporate franchise tax over five years.

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
University of Missouri - Economic and Policy Analysis Research Center

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Director
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