

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2233-01
Bill No.: HB 1031
Subject: Taxation and Revenue – Income; Taxation and Revenue – General; Business and Commerce
Type: Original
Date: April 23, 2013

Bill Summary: This proposal would eliminate the Missouri corporate income tax as of January 1, 2014.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(\$121,697,885)	(\$383,905,000)	(\$383,331,564)
Total Estimated Net Effect on General Revenue Fund	(\$121,697,885)	(\$383,905,000)	(\$383,331,564)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	0	0	(16 FTE)
Total Estimated Net Effect on FTE	0	0	(16 FTE)

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 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume 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 the Secretary of State's Office 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 **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

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

BAP officials noted this proposal would eliminate the corporate income tax beginning 1/1/14. Based on FY 2012 net corporate income tax receipts, this would Reduce General and Total State Revenues by \$275 million annually. Also, the Department of Revenue reported taxable corporate income of \$5.6 billion in 2010, suggesting a net loss of \$350 million is possible. Because the change would take effect January 1, 2014, this proposal could reduce estimated payments in April and June; therefore, FY 2014 General and Total State Revenues may decline by some portion of the figures above.

Officials from the **Department of Revenue (DOR)** assume this proposal would eliminate the tax on Missouri taxable income of corporations.

Fiscal impact

DOR officials noted that corporate taxpayers reported \$5.6 billion in taxable income and \$349 million in tax for 2010. Assuming taxable income would remain stable, this proposal would reduce revenue by an estimated \$349 million annually.

ASSUMPTION (continued)

IT impact

In response to similar provisions in HB 2265 LR 5140-01 (2010) DOR officials noted the Department would require programming changes to the Corporation Income Tax System (COINS), the Corporate and Franchise Tax System (CAFÉ), the Corporate Electronic Filing Specifications (Mefile), and the Case Audit Management System (CAMS).

DOR officials provided an estimate of the IT cost to implement the proposal of \$4,544 based on 168 hours of programming to makes changes to DOR systems.

Administrative impact

DOR officials assume all existing staff would be retained through FY 2016 to continue processing tax corporate income tax, franchise tax, and financial institutions tax returns. DOR officials assumed 5 out of 24 FTE could be eliminated in FY 2017.

In response to similar provisions in HB 2265 LR 5140-01 (2010), the DOR fiscal response indicated personnel cost savings due to the reduction of sixteen staff of \$656,727 for FY 2012 and \$591,876 for FY 2013. Oversight recalculated the DOR estimate and determined the cost reduction for the number of positions eliminated would have been \$676,040 for FY 2013.

Oversight will reflect the reduction of sixteen DOR employees for FY 2016 in this fiscal note, and has calculated the savings based on the current Office of Administration, Division of Personnel salary tables. Oversight has used, for fiscal note purposes only, the salary for the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Oversight has not reflected any potential cost reduction in office rent or equipment cost in this fiscal note.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** assume this proposal would, if enacted, eliminate the Missouri corporate income tax. EPARC officials noted their latest estimate of corporate tax revenues, based on returns filed in 2010, indicated an aggregate liability of \$383.905 million. By eliminating the corporate income, the proposal would reduce General and Total State Revenue by \$383.905 million.

Oversight notes this proposal would eliminate the state corporate income tax beginning January 1, 2014 and assumes the full impact of eliminating the corporate income tax would be realized in January, 2015 (FY 2015) when 2014 returns would be filed.

Oversight assumes the complete elimination of the corporate income tax would prompt corporations to discontinue quarterly estimated tax payments in FY 2014. Oversight also assumes the revenue reduction for FY 2014 could be estimated based on information from the Department of Revenue Annual Report for FY 2012 as follows:

Corporate income and franchise tax estimated payments	\$319 million
Corporate income and franchise tax paid with returns	<u>\$184 million</u>
Total corporation income and franchise tax	<u>\$503 million</u>

Estimated payments of \$319 million were $(\$319/\$503) = 63.4\%$ of total revenues. Since two of the four (50%) estimated payments for 2014 income taxes would have been made in FY 2014, the estimated FY 2014 revenue reduction would be $(\$383,905,000 \times 63.4\% \times 50\%) = \$121,697,885$. After the first year, Oversight assumes there would be no impact for estimated payments since potential estimated payments for the current year would have offset those for the next year.

For fiscal note purposes, Oversight will indicate a revenue reduction for FY 2014 of \$121,697,885 and a revenue reduction for FY 2015 and FY 2016 of \$383,905,000.

Officials from the **State Tax Commission** assume this proposal would have no fiscal impact on their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2014	FY 2015	FY 2016
	(10 Mo.)		

GENERAL REVENUE FUND

Cost reduction - DOR

Corporate income tax repeal

Section 143.071

Salaries	\$0	\$0	\$373,878
Benefits	\$0	\$0	\$189,724
Expenses	<u>\$0</u>	<u>\$0</u>	<u>\$9,834</u>
<u>Total cost - DOR</u>	\$0	\$0	\$573,436
FTE change - DOR	0	0	(16 FTE)

Revenue reduction - DOR

Corporate income tax repeal

Section 143.071

	<u>(\$121,697,885)</u>	<u>(\$383,905,000)</u>	<u>(\$383,905,000)</u>
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**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

	<u>(\$121,697,885)</u>	<u>(\$383,905,000)</u>	<u>(\$383,331,564)</u>
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Estimated Net FTE Effect on General
Revenue Fund

	0	0	(16 FTE)
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FISCAL IMPACT - Local Government

FY 2014
(10 Mo.)

FY 2015

FY 2016

	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

This proposal would eliminate income taxes for an incorporated small business.

FISCAL DESCRIPTION

The proposed legislation would eliminate the corporate income tax as of January 1, 2014.

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
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Revenue
State Tax Commission
University of Missouri
 Economic and Policy Analysis Research Center



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Acting Director
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