

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3934-04  
Bill No.: SCS for SB 852  
Subject: Banks and Financial Institutions; Business and Commerce; Savings and Loan; Taxation and Revenue.  
Type: Original  
Date: March 17, 2006

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0 TO (UNKNOWN)</b>	<b>\$0 TO (UNKNOWN)</b>	<b>\$0 TO (UNKNOWN)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 4 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Department of Insurance** assume the proposal would not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this legislation will allow tax credits for the total franchise tax due from a Sub-Chapter S Corporation (S-Corp). An S-Corp is a partnership operating as a corporation throughout the year. At the end of the year, and for tax purposes, the S-Corp reverts back to a partnership for distribution of tax liability. This legislation will grant tax credits to the individual partners of an S-Corp equal to the taxes due of the S-Corp. Because this legislation deals with a financial institution, said institution is required to pay franchise taxes in lieu of corporate income taxes. Franchise taxes are calculated by taking 7% of the S-Corporations net income (Section 148.620, RSMo.)

BAP does not know the number of filers that may qualify for the proposed credit. This proposal would lower general and total state revenues by an unknown amount. BAP notes that \$2.7 million in gross bank franchise taxes and \$116.7 million of gross corporate franchise taxes were collected in FY 2005.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state this legislation creates a tax credit for shareholders of S corporation savings and loan associations with a carry-forward provision of five years. DOR assumes the proposal would reduce the amount of tax due, therefore, reducing the amount of state revenues.

DOR assumes this legislation expands an existing credit to individuals who are shareholders of the S corporation. Personal Tax would need 1 Tax Processing Technician for every 4,000 credits claimed, since there are carry-forward provisions and this credit is administered by DOR. Since DOR does not expect to receive 4,000 returns of this nature, the credit will be processed using existing resources.

The Bank Tax Credit for S Corporation Shareholders has had tax credits redeemed of \$1.1 million in FY 2003, \$1.2 million in FY 2004 and \$941,460 in FY 2005. Oversight assumes this proposal will increase the amount of tax credits utilized in a given year, but can not estimate an amount. Therefore **Oversight** will state that the proposal will potentially result in a loss to the General Revenue fund of an unknown amount.

**This proposal will reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<b>GENERAL REVENUE</b>			
<u>Loss</u> - for tax credits for S corporations that are associations or credit institutions	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>\$0 TO (UNKNOWN)</u></b>	<b><u>\$0 TO (UNKNOWN)</u></b>	<b><u>\$0 TO (UNKNOWN)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

Small businesses that qualify for this tax credit could be fiscally impacted by this proposal.

DESCRIPTION

This proposal provides for an income tax credit for shareholders of S corporation savings and loan association holding companies and credit institutions based on the pro rata share of corporate franchise tax paid by such association or institution.

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  
Department of Insurance  
Office of Administration - Budget and Planning



Mickey Wilson, CPA  
Director  
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