COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2420-02
Bill No.: SB 590
Subject: Corporations; Taxation and Revenue - General
Type: Original
Date: March 5, 2007

Bill Summary: Would phase out the corporate franchise tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	$0 to ($6,633,768)	($31,160,000) to ($35,140,261)	($41,255,520) to ($44,412,477)
Total Estimated Net Effect on General Revenue Fund	**$0 to ($6,633,768)**	**($31,160,000) to ($35,140,261)**	**($41,255,520) to ($44,412,477)**

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

Although they did not respond to our request for information, officials from the **Office of the Secretary of State** (SOS) responded to a similar proposal (HB 458 LR 1083-01) 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) assume the proposal would have no fiscal impact on their organization. DOR officials provided information indicating that Corporate Franchise Tax collections were $73.4 million for 2005 returns , $105.6 million for FY 2004, and $99.6 million for 2003 returns.

Information Technology (ITSD/DOR) estimates 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 $33,674.

Officials from the **Office of Administration**, **Division of Budget and Planning** (BAP) assumed there would be no added cost to the Office of Administration/Budget and Planning as a result of this proposal. This proposal would eliminate the franchise tax for taxpayers in graduated increments by FY12. BAP notes that $119.4M was collected in corporate and bank franchise tax in FY05, and $77.8M was collected in FY06.

For tax year 2008, the filing threshold is raised to $10M for taxpayers that meet health insurance provisions. Assuming all filers meet the provisions, this will reduce general and total state revenues by an estimated $11.5M in FY08.

ASSUMPTION (continued)

For tax year 2009, the rate for all taxpayers is lowered to 0.0002%, and the filing threshold is raised to $10M for taxpayers that meet health insurance provisions. Assuming all filers meet the provisions, this will reduce general and total state revenues in FY09 by an estimated $35.4M, compared to FY06.

For tax year 2010 the rate for all taxpayers is lowered to 0.00014%, and the filing threshold is raised to $10M for taxpayers that meet health insurance provisions. Assuming all filers meet the provisions, this will reduce general and total state revenues in FY10 by an estimated $46.8M, compared to FY06.

For tax year 2011 the rate for all taxpayers is lowered to 0.00011%, and the filing threshold is raised to $10M for taxpayers that meet health insurance provisions. Assuming all filers meet the provisions, this will reduce general and total state revenues in FY11 by an estimated $52.M, compared to FY06.

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

Based on 2002 data, the most recent available, 2007 taxes (FY 2008) would be $288,537,191. Beginning in January 2008, the threshold is fixed at $10 million and the rate is 1/30th of 1%. Thus 2008 franchise taxes (FY 2008) would be $281,903,423, a reduction of $6,633,768. In January 2009 the rate is reduced to 1/50th of 1%; franchise taxes would be $169,142,054, a cumulative reduction of $119,395,137. In January 2010 the rate is reduced to 1/70th of 1%; franchise taxes would be $120,815,753, a reduction of $167,721,438.

Oversight notes the range of franchise tax revenues reported by the various respondents. Oversight notes that the full impact of 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 a lesser reduction in franchise taxes due.

Using the EPARC estimate of franchise tax revenue reduction for FY 2008, Oversight has calculated the potential reduction in impact from corporations which do not meet the employee health insurance requirement as $6,633,768 for FY 2008, $3,980,261 for FY 2009, and $2,843,043 for FY 2010.

ASSUMPTION (continued)

Oversight will use the EPARC estimate of franchise tax reduction for 2008, and indicate a range of $0 to $6,633,768 since the full reduction would only occur if all corporate employers met the employee health care requirement.

Based on the BAP reported franchise tax revenue of $77,900,000 for FY 2005, Oversight has estimated the impact of this proposal for FY 2009 and FY 2010 as follows. Oversight will indicate a range for each year from the EPARC estimate as adjusted for the maximum effect of the employee health insurance requirement, to the full EPARC estimate.

FY 2009

$77,900,000 - $6,633,768 = $71,266,232 Franchise tax for FY 2008.
$71,266,232 x .60 = $42,759,739 Franchise Tax for FY 2009
$77,900,000 - $42,759,739 = $35,150,261 Reduction in Franchise Tax for FY 2009
$35,150,261 - $3,980,261 = $31,160,000 Reduction without health care reduction

FY 2010

$77,900,000 - $6,633,768 = $71,266,232 Franchise tax for FY 2008.
$71,266,232 x .43 = $30,644,480 Franchise Tax for FY 2009
$77,900,000 - $30,644,480 = $47,255,520 Reduction in Franchise Tax for FY 2009
$47,255,520 - $2,843,043 = $44,412,477 Reduction without health care reduction

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 to ($6,633,768)	($31,160,000) to ($35,140,261)	($44,412,477) to ($47,255,520)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0 to ($6,633,768)**	**($31,160,000) to ($35,140,261)**	**($44,412,477) to ($47,255,520)**

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 on incorporated small businesses.

FISCAL DESCRIPTION

This proposal would phase out the corporate franchise tax.

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

NOT RESPONDING

Office of the Secretary of State

Mickey Wilson

Mickey Wilson, CPA
Director
March 5, 2007