

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5395-01
Bill No.: SB 1266
Subject: Business and Commerce; Federal - State Relations; Taxation and Revenue -
Income
Type: Original
Date: April 9, 2008

Bill Summary: Would decouple Missouri income tax law from the Internal Revenue Code with regard to depreciation deductions provided by the enactment of the Economic Stimulus Act of 2008.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$92,000,000	\$12,000,000	\$0
Total Estimated Net Effect on General Revenue Fund	\$92,000,000	\$12,000,000	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** assume this proposal would have no fiscal impact on their organization.

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

BAP officials stated that this proposal would decouple Missouri income tax law from the bonus depreciation portions of the federal Economic Stimulus Act of 2008. According to estimates published by the Congressional Joint Committee on Taxation (JCT), this proposal would lower U.S. Treasury collections \$43.9 billion in its first year and \$5.6 billion in its second year. BAP assumes the first year of impact on Missouri taxes would be FY 2009.

According to comments by the JCT, roughly 70% of the impact would be on corporate taxes, and 30% of the impact would be on individual taxes. Missouri income tax collections could be reduced by an estimated \$92 million in FY 2009, and \$12 million in FY 2010 under current law. BAP notes these estimates are based on expected business behaviors observed earlier in this decade; there is no guarantee similar purchases would occur.

BAP notes that the intent of the federal legislation is to stimulate economic activity, thereby offsetting some the projected losses. BAP assumes this proposal could increase general and total state revenues up to \$92 million in FY 2009, and up to \$12 million in FY 2010.

Oversight will use the BAP calculation of taxes and notes that this proposal would prevent the reduction in state revenue that would result from following the federal bonus depreciation provisions. Although the federal incentive program could stimulate additional economic activity and reduce the impact of the tax revenue reductions caused by the bonus depreciation provisions, the amount of additional taxes which might be generated by the additional economic activity can not be estimated and will not be indicated in this fiscal note.

ASSUMPTION (continued)

FY 2009 Revenue Reduction	Corporate 70%	Personal 30%
Estimated federal cost of \$43,900 (million)	\$30,730	\$13,170
Assumed tax rate	26.2%	20.1%
Federal estimated additional depreciation deductions (cost/tax rate)	\$117,380	\$65,522
Missouri percentage of federal total	.06%	1.75%
Estimated Missouri depreciation (federal total x Missouri %)	\$720	\$1,147
Missouri average tax rate	5.6%	4.5%
Estimated Missouri revenue reduction (depreciation x tax rate)	\$40	\$52

FY 2010 Revenue Reduction	Corporate 70%	Personal 30%
Estimated federal cost of \$5,600 (million)	\$3,920	\$1,680
Assumed tax rate	26.2%	20.1%
Federal estimated additional depreciation deductions (cost/tax rate)	\$14,973	\$8,358
Missouri percentage of federal total	.06%	1.75%
Estimated Missouri depreciation (federal total x Missouri %)	\$92	\$146
Missouri average tax rate	5.6%	4.5%
Estimated Missouri revenue reduction (depreciation x tax rate)	\$5	\$7

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Revenue increase - decoupling from federal bonus depreciation provisions</u>			
Personal income tax	\$52,000,000	\$7,000,000	\$0
Corporate income tax	<u>\$40,000,000</u>	<u>\$5,000,000</u>	<u>\$0</u>
Total	<u>\$92,000,000</u>	<u>\$12,000,000</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$92,000,000</u>	<u>\$12,000,000</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could increase state income taxes for small businesses which have depreciable property.

FISCAL DESCRIPTION

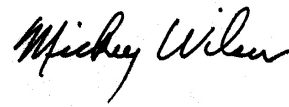
This proposal would decouple Missouri income tax law from the Internal Revenue Code with regard to depreciation deductions provided by the enactment of the Economic Stimulus Act of 2008.

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. 5395-01
Bill No. SB 1266
Page 6 of 6
April 9, 2008

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Revenue

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large, prominent 'M' and 'W'.

Mickey Wilson, CPA
Director
April 9, 2008