

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2014-01  
Bill No.: SB 392  
Subject: Corporations; Taxation and Revenue - Income; Revenue Dept.  
Type: Original  
Date: March 3, 2009

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Bill Summary: Would phase out the corporate income tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	\$0	\$0	(\$82,700,000 to \$104,200,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$82,700,000 to \$104,200,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<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 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</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 FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of the Secretary of State** assume this proposal would have no fiscal impact to 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 the Division of Budget and Planning.

BAP officials stated that this proposal would phase out the corporate income tax in Missouri, beginning in FY10. The proposed tax rates, and estimated losses to general and total state revenues, are presented below. The net corporate tax collections in FY08 were \$370.5 million. Assuming that corporate taxable income remains at this level, the following table lists the estimated impact on total and general state revenues by fiscal year. (Millions of dollars.)

<u>Year</u>	<u>Rate</u>	<u>Projected Collections</u>	<u>Impact</u>
FY09	6.25	\$370.5	\$0
FY10	5.00	\$296.4	(\$74.1)
FY11	3.75	\$222.3	(\$148.2)
FY12	2.50	\$148.2	(\$222.3)
FY13	1.25	\$74.1	(\$296.4)
FY14	0.00	\$0.0	(\$370.5)

Officials from the **Department of Revenue** (DOR) stated that they do not anticipate a fiscal impact due to this legislation. DOR officials provided total net corporate income tax collections for FY 2008 of \$521 million and FY 2007 collections of \$553.9 million.

DOR officials also provided an estimate of the IT cost to implement the proposal.

Officials from the **Office of Administration, Information Technology Services Division** (ITSD/DOR) estimated that implementing this proposal would require three FTE existing CIT III for three months for system modifications to COINS, E-file and the EDW interface at a total cost of \$39,969. ITSD/DOR officials assume the proposal could be implemented with existing resources; however, if priorities shift, additional FTE or overtime would be required.

**Oversight** assumes the proposal could be implemented with existing IT resources.

ASSUMPTION (continued)

**Oversight** assumes there would be a reduction of FTE and related expenditures in the Department of Revenue when the corporation income tax is no longer imposed. That cost reduction would be after FY 2014 and will not be shown in this fiscal note.

Officials from the **University of Missouri, Economic Policy Analysis and Research Center** (EPARC) stated that if enacted, this proposal would reduce the corporate income tax rate over the five years from 2011 to 2015. More specifically, for tax year 2011, the corporate income tax rate would be 5 percent, down from its current 6.25 percent. The rate would gradually decline, dropping to 3.75 percent in 2012, to 2.5 percent in 2013, to 1.25 percent in 2014, and 0 percent in 2015.

We have reliable corporate income tax data for 2006. EPARC calculated the projected Corporate Income Tax using the aforementioned tax rates and the base year's taxable income, approximately \$7.4 billion. The reduction in Net General Revenue was then calculated by comparing the difference between the computed Corporate Income Tax estimate and the Corporate Income Tax revenue from the base year Corporate Income Tax revenue total of \$461,559,495.

Corporate income tax revenues are estimated to be \$369.2 million for FY 2011, lowering Net General Revenue by \$92.3 million. Corporate income tax revenues are estimated to be \$276.9 million for FY 2012, lowering Net General Revenue by \$184.6 million. Corporate income tax revenues are estimated to be \$184.6 million for FY 2013, lowering Net General Revenue by \$369.2 million. Corporate income tax revenues are estimated to be \$92.3 million for FY 2014, lowering Net General Revenue by \$369.2 million. Finally, in 2015 corporate income tax would be fully phased out resulting in \$0 corporate income tax revenues, lowering Net General Revenue by \$461.6 million.

ASSUMPTION (continued)

**Oversight** will use the DOR reported corporate tax revenue amount for FY 2008 as the base for computing revenue reductions for the purposes of preparing this fiscal note, and will use the BAP assumption of a percentage-based reduction in tax revenues since this proposal would reduce the tax rate by 1.25% each year. Oversight will provide a range for the estimated impact of this proposal using the BAP and Oversight calculations.

Tax Year	State Fiscal Year	Tax Rate	Percentage Loss	Revenue Reduction (\$ millions)
2011	2012	5.00%	20	\$104.2
2012	2013	3.75%	40	\$208.4
2013	2014	2.50%	60	\$312.6
2014	2015	1.25%	80	\$416.8
2015	2016	0.00%	100	\$521.0

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
<b>GENERAL REVENUE</b>			
<u>Revenue reduction</u> - corporate income tax rate reduction	\$0	\$0	<u>(\$82,700,000 to \$104,200,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(\$82,700,000 to \$104,200,000)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which are incorporated.

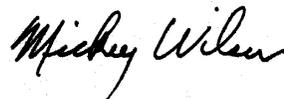
FISCAL DESCRIPTION

This proposal would authorize a gradual reduction in the annual corporate income tax rate.

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



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Director  
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