

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0336-02  
Bill No.: SCS for SB 19  
Subject: Corporations; Revenue Dept; Taxation and Revenue - General  
Type: Original  
Date: February 4, 2011

Bill Summary: Would phase out the corporate franchise tax over five years.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$0	(\$16,554,054)	(\$35,000,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>(\$16,554,054)</b>	<b>(\$35,000,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
<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 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</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 2012</b>	<b>FY 2013</b>	<b>FY 2014</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 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Revenue** (DOR) assume this proposal would change the corporate franchise and bank franchise tax rates and would eventually phase out the tax, which would create a negative impact to total state revenue.

Between January 1, 2010 and January 1, 2012, the annual franchise tax would be 1/30th of one percent of the taxable entity's outstanding shares and surplus, if they exceed \$10.0 million. For 2012 the rate would be 1/37th of one percent, for 2013 the rate would be 1/50th of one percent, for 2014 the rate would be 1/75th of one percent, for 2015 the rate would be 1/150th of one percent, and for tax years beginning on or after January 01, 2016, no franchise tax would be imposed.

Assets levels reported for corporate franchise tax filers that have assets greater than \$10 million have increased at a rate of 6.23% per year since 2002. The following table reflects the anticipated reduction in corporation franchise tax, if asset levels continue to increase as the tax is phased out.

### Corporate Franchise

Year	Assets	Rate	Tax	Reduction in tax
2009	\$249,077,742,304	0.000333	\$82,942,888	\$0
2012	\$298,590,829,277	0.000266	\$79,425,161	\$3,517,728
2013	\$317,193,037,941	0.000200	\$63,438,608	\$19,504,281
2014	\$336,954,164,205	0.000133	\$44,814,904	\$38,127,984
2015	\$357,946,408,635	0.000067	\$23,982,409	\$58,960,479
2016	NA	0.000000	\$0	\$82,942,888

ASSUMPTION (continued)

Bank Franchise

Fiscal year 2010 bank franchise tax collections were \$5.7 million. A reduction similar to the corporate franchise tax would also result to bank franchise tax collections.

DOR officials also provided actual total franchise tax collections of \$87.5 million for the year ended June 30, 2010.

DOR officials stated that the Department and the Office of Administration, Information Technology Services Division (ITSD-DOR) would need to make programming changes to the corporation income tax processing systems (COINS and CAFÉ), Corp E-file System and the Financial Institutions Tax System. DOR officials estimated the IT portion of the fiscal impact at \$26,712, based on 1,008 FTE hours.

**Oversight** assumes that ITSD-DOR is provided with core funding to handle a certain amount of activity each year, and assumes ITSD-DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD-DOR could request funding through the appropriation process.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume that if enacted, this legislation would gradually phase-out the corporate franchise tax over a five year period.

For the tax year 2011, the rate would remain at one-thirtieth of one percent and the threshold amount would remain at \$10 million dollars. For 2012, the rate would be reduced to one thirty-seventh of one percent. For the tax year 2013, the rate would be reduced to one fiftieth of one percent. For the tax year 2014, the rate would be reduced to one seventy-fifth of one percent. For the tax year 2015, the rate would decrease to one hundred-fiftieth of one percent. Effective January 1, 2016, no corporate franchise tax would be imposed.

The following estimates were generated using corporate tax data from 2008. The table reports the potential total franchise tax for corporations with assets greater than \$10 million in Missouri for the years 2011 through 2016 if this proposal was implemented.

ASSUMPTION (continued)

Year	Franchise Tax Rate	Franchise Tax Due	Reduction in Franchise Tax
2011	1/30 of 1%	\$76,703,328	\$0
2012	1/37 of 1%	\$62,191,888	\$14,511,440
2013	1/50 of 1%	\$46,021,997	\$30,681,331
2014	1/75 of 1%	\$30,681,331	\$46,021,997
2015	1/150 of 1%	\$15,340,665	\$61,362,663
2016	None	\$0	\$76,703,328

**Oversight** notes that corporate franchise tax collections vary from year to year; however, based on 2010 collections, Oversight assumes an estimate of the revenue reduction for this proposal can be calculated as shown in the following chart.

Year	Franchise Tax Rate	Franchise Tax Due	Reduction in Franchise Tax
2011	1/30 of 1%	\$87,500,000	\$0
2012	1/37 of 1%	\$70,945,946	\$16,554,054
2013	1/50 of 1%	\$52,500,000	\$35,000,000
2014	1/75 of 1%	\$35,000,000	\$52,500,000
2015	1/150 of 1%	\$17,500,000	\$70,000,000
2016	None	\$0	\$87,500,000

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction - franchise tax</u>	<u>\$0</u>	<u>(\$16,554,054)</u>	<u>(\$35,000,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>(\$16,554,054)</u></b>	<b><u>(\$35,000,000)</u></b>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2012 (10 Mo.)	 FY 2013	 FY 2014
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would impact those small businesses which are currently subject to the franchise tax.

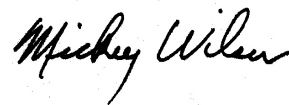
FISCAL DESCRIPTION

The proposed legislation would phase out the corporate franchise tax over five years.

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  
University of Missouri - Economic and Policy Analysis Research Center



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