

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0149-02  
Bill No.: SCS for SB 19  
Subject: Corporations; Taxation and Revenue - Income  
Type: Original  
Date: February 13, 2015

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Bill Summary: This proposal would provide a new option for income tax reporting of interstate sales by corporations.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(Up to \$15,200,000)	(Up to \$15,200,000)	(Up to \$15,200,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Up to \$15,200,000)</b>	<b>(Up to \$15,200,000)</b>	<b>(Up to \$15,200,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<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.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** noted this proposal would provide a revised method for allocating taxable corporate income. Based on information provided by the Department of Revenue, BAP officials estimated this proposal could reduce general and Total State Revenues by up to \$13.9 million in FY 2016 and \$15.2 million per year thereafter. BAP officials also stated they would provide a more precise estimate as additional information becomes available.

Officials from the **Department of Revenue (DOR)** stated this proposal would modify how a taxpayer elects to compute the portion of income from all sources for sales of intangible property or services for compensation in Missouri. A sale of intangible property would be considered made in this state if the purchaser uses the property in this state. If the property would be used in multiple states, the legislation provides for the allocation of related income pro rata to the portion of use in Missouri.

### **Administrative impact**

DOR officials assume Corporate Tax would require forms and programming changes. In addition, Corporate Tax would require two additional Revenue Processing Technicians I (Range 10, Step L) for error correction and additional correspondence.

The DOR estimate of cost to implement this proposal included two additional employees; with the related equipment and expenses, the estimate totaled \$81,681 for FY 2016, \$84,086 for FY 2017, and \$84,960 for FY 2018.

**Oversight** notes this proposal would provide a revised methodology to use in allocating the taxable income from multi-state transactions for Missouri corporations. Oversight does not have information regarding the number or amount of transactions which might be subject to those definitions; however, Oversight assumes virtually all corporate income tax returns are prepared by corporate officers or tax professionals and will assume for fiscal note purposes the proposal could be implemented with existing DOR resources.

ASSUMPTION (continued)

Fiscal impact

DOR officials estimated the loss to Total State Revenue could be \$15.2 million annually, as shown below. The DOR calculation used tax year 2011 information because that is the last year for which DOR has complete information. DOR assumes corporations that filed using a single factor or three-factor apportionment and had a cost of goods sold at or below 50 percent would be able to use the proposed method of allocating income. Corporations which would have paid additional taxes using the proposed allocation method were excluded from the estimation process.

Current three factor filers:	\$2.2 million (2,800 corporations)
Current single factor filers:	<u>\$8.0 million</u> (980 corporations)
Total corporate	\$10.2 million (3,780 corporations)
Estimated LLC pass-through	<u>\$5.0 million</u>
Total	<u>\$15.2 million</u>

Notes:

1. Not all records reviewed included a cost of goods sold. The department averaged the impact for records which included a cost of goods sold amount and applied that number to those accounts.
2. The amount of sales partly within and partly without Missouri for single factor filers was not taken into consideration; therefore, the DOR estimate may be overstated as some of these sales would likely be included as Missouri sales.

**Oversight** also notes that DOR was not able to identify which filers could benefit from the proposal; rather, the DOR fiscal impact calculations were prepared based on assumptions as to which filers might benefit from the revised methodology. Oversight does not have independent information regarding filers which could benefit from the proposed methodology and will assume for fiscal note purposes the DOR estimate is the best available.

ASSUMPTION (continued)

**Oversight** discussed with DOR officials the potential impact of this proposal in FY 2016. The proposal would become effective August 28, 2015 (FY 2016) and the new methodology for allocating corporate income from interstate sales would be in effect for ten months of FY 2016. Oversight notes the proposal would be in effect for four months of calendar 2015, and for a different but unknown portion of the year for a corporation which has adopted a fiscal year. DOR officials told us they did not have any information as to the number of fiscal year filers but assumed they would represent only a small part of total corporate filers.

The first tax returns would be filed by corporations subject to this proposal beginning in January, 2016 for 2015. Oversight assumes the fiscal impact of this proposal on FY 2016 would be less than the full year impact but is unable to estimate that impact. Accordingly, Oversight will indicate a reduction in income tax revenues up to the Department of Revenue estimate of \$15.2 million for FY 2016, FY 2017, and FY 2018.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center** stated they did not have the specific information required to prepare a simulation of the impact for this proposal.

Officials from the **Office of the Secretary of State (SOS)** assume 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 the Secretary of State's Office 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 **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction</u> - Income tax	(Up to	(Up to	(Up to
Changes in corporate revenue allocation	<u>\$15,200,000)</u>	<u>\$15,200,000)</u>	<u>\$15,200,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>(Up to <u>\$15,200,000)</u></b>	<b>(Up to <u>\$15,200,000)</u></b>	<b>(Up to <u>\$15,200,000)</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

#### FISCAL IMPACT - Small Business

Corporations which are small businesses, and the owners of small businesses could potentially pay less in state income taxes as a result of this proposal.

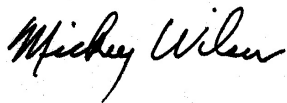
#### FISCAL DESCRIPTION

The proposed legislation would provide a revised method for allocating corporate income from multistate transactions to Missouri for tax purposes.

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  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Department of Revenue  
University of Missouri  
    Economic and Policy Analysis Research Center



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February 13, 2015

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