

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0033-01
Bill No.: SB 17
Subject: Taxation and Revenue - Income; Corporations
Type: Original
Date: January 9, 2017

Bill Summary: This proposal would phase out the Missouri corporate income tax over three years.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|------------------------|------------------------|------------------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 |
| General Revenue | (\$186,025,191) | (\$351,000,000) | (\$516,000,000) |
| Total Estimated Net Effect on General Revenue | (\$186,025,191) | (\$351,000,000) | (\$516,000,000) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 |
| | | | |
| | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 |

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 2018 | FY 2019 | FY 2020 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State**, the **Joint Committee on Administrative Rules**, and the **City of Kansas City** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Everton School District** assume this proposal would have an impact to their organization of \$100,000.

Officials from the **Lee's Summit School District** assume this proposal would have a negative impact to their organization of \$11,050,817 over the three years from 2018 to 2020 by reducing the state revenue available for funding public schools.

Officials from the **Kirksville Public Schools** assume this proposal would have an unspecified negative impact on public schools.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would reduce General Revenue (GR) and Total State Revenues (TSR) by an estimated \$280.8 million annually, once fully implemented. BAP officials note the proposal would also impact the revenue limitation calculation under Article X, Section 18(e) of the Missouri Constitution.

BAP officials noted this proposal would phase-out the corporate income tax over three years, starting in tax year 2017. In tax year 2017, the corporate tax rate would be reduced from 6.25% to 4.0%; in tax year 2018 the corporate tax rate would be reduced to 2.0%; and the corporate tax would be eliminated in tax year 2019. BAP officials stated in FY 2016, net corporate taxes generated \$280.2 million in revenue. Therefore, eliminating the corporate income tax would reduce state revenues by \$280.8 million once fully implemented. BAP estimated that this proposal would reduce revenues by \$196.6 million in FY 2018, \$235.9 million in FY 2019, and \$280.8 million in FY 2020 and thereafter.

Further, BAP officials noted that in FY 2016 there were \$73.2 million in tax credit redemptions for corporate income taxes, and noted that this proposal may lead to a reduction in tax credit redemptions, but BAP officials stated they could not estimate what the actual impact, if any, may be to TSR and GR.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would reduce Total State Revenue by an estimated \$534.2 million when the legislation is fully implemented. Beginning in 2017, the proposal would reduce the corporate income tax rate to four percent and then it would be reduced to two percent in 2018. In 2019, the proposal would reduce the tax rate on corporate income to zero.

Section 143.071

Based on Corporate Income Tax collections of \$534.2 million for calendar year 2015, DOR officials assume the following calendar year impacts from the reduction to the Corporate Income Tax rate.

| <u>Tax Year</u> | <u>Rate</u> | <u>Revenue Loss</u> |
|-----------------|-------------|---------------------|
| 2017 | 4.00% | \$192.3 million |
| 2018 | 2.00% | \$363.3 million |
| 2019 | 0.00% | \$534.2 million |

Because this legislation would not become effective until August 28, 2017, DOR officials assume the impact from Tax Year 2017 would be shifted entirely to FY 2018. The fiscal year impacts are as follows:

| <u>Fiscal Year</u> | <u>Revenue Loss</u> |
|--------------------|---------------------|
| 2017 | \$0 |
| 2018 | \$373.9 million |
| 2019 | \$448.7 million |
| 2020 | \$534.2 million |

Administrative impact

DOR officials assume Corporate Tax would require form changes and programming support. Additionally, Corporate Tax would require two (2) additional Revenue Processing Technicians I (Range 10, Step L) for additional error correction and correspondence.

The DOR estimate of administrative cost to implement this proposal including two additional full-time employees and the related equipment and expense, was \$92,171 for FY 2018, \$94,218 for FY 2019, and \$94,990 for FY 2020.

ASSUMPTION (continued)

Oversight notes that the proposal would only change the rate of corporate tax, and assumes current DOR staffing would be adequate. If unanticipated additional costs are incurred or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

IT impact

DOR officials assume that 335.88 hours of programming would be required at the contract rate of \$75 per hour for a total IT cost of \$25,191.

Oversight will include the DOR estimate of IT cost in this fiscal note.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** assume that if enacted, this bill would phase out corporate income tax over three years. Specifically, this bill would reduce the corporate tax rate to 4% in 2017, to 2% in 2018 and then in 2019 there would be no tax imposed on the income of corporations.

EPARC officials noted the latest 2014 corporate income tax data indicates an aggregate liability of \$516.341 million at the current tax rate of 6.25% and used that figure as their baseline. If the corporate income tax was reduced to 4% in 2017, EPARC officials estimated the corporate income tax liability would be \$330.458 million, a reduction of \$185.883 million. If the corporate income tax was reduced to 2% in 2018, EPARC officials estimated the corporate income tax liability would be \$165.229 million, a reduction from the baseline liability of \$351.112 million. Eliminating the corporate income tax in 2019 would reduce revenue by the entire baseline amount of \$516.341 million.

Oversight notes that DOR reported collections of corporate income and franchise taxes for FY 2014 (calendar 2013 taxes) were approximately \$541 million, FY 2015 (calendar 2014 taxes) were approximately \$559 million, and FY 2016 (calendar 2015 taxes) were approximately \$486 million. Oversight also notes the corporate franchise tax was eliminated as of January 1, 2016.

Because of the variability of actual collections, **Oversight** will use the EPARC estimates, rounded to the nearest million dollars for simplicity, for fiscal note purposes. The 2017 (FY 2018) revenue reduction will be reported as \$186 million, the 2018, (FY 2019) reduction will be reported as \$351 million, and the 2019 (FY 2020) reduction will be reported as \$516 million.

| <u>FISCAL IMPACT - State Government</u> | FY 2018 (10 Mo.) | FY 2019 | FY 2020 |
|--|-------------------------------|-------------------------------|-------------------------------|
| GENERAL REVENUE | | | |
| <u>IT cost - DOR</u> | (\$25,191) | \$0 | \$0 |
| <u>Revenue Reduction - Corporate Income tax phased out</u> | <u>(\$186,000,000)</u> | <u>(\$351,000,000)</u> | <u>(\$516,000,000)</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE | <u>(\$186,025,191)</u> | <u>(\$351,000,000)</u> | <u>(\$516,000,000)</u> |

| <u>FISCAL IMPACT - Local Government</u> | FY 2018 (10 Mo.) | FY 2019 | FY 2020 |
|---|---------------------|------------|------------|
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

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

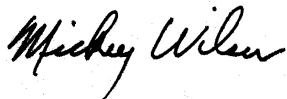
FISCAL DESCRIPTION

The proposed legislation would phase out the Missouri corporate income tax over three 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

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Revenue
City of Kansas City
Everton Public Schools
Kirksville Public Schools
Lee's Summit R-VII Schools
University of Missouri
 Economic and Policy Analysis Research Center



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January 9, 2017

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