

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0358-01
Bill No.: SB 175
Subject: Taxation and Revenue - General
Type: Original
Date: January 9, 2019

Bill Summary: This proposal modifies a tax credit for certain financial institutions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0	\$2,700,000 to \$4,300,000	\$2,700,000 to \$4,300,000
Total Estimated Net Effect on General Revenue	\$0	\$2,700,000 to \$4,300,000	\$2,700,000 to \$4,300,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Revenue (DOR)** assume this proposal places an end date on the credit authorized in §148.064.6 for all tax years beginning on or after January 1, 2020.

The Bank Franchise Tax (BFT) credit in §148.064.6 gives financial institutions a credit to reflect the previous reduction in the franchise tax rate. For tax years beginning on or after January 1, 2016, no annual franchise tax is imposed under §147.010. Section 148.064.7 creates a new credit once the franchise tax is repealed, but the current statute does not expressly repeal the credit authorized in §148.064.6. This creates a double credit which is not necessary and reduces state revenue.

The Department took the average amount of credits redeemed in the last three fiscal years to come up with the fiscal impact. The chart below reflects the total dollar amount of the bank franchise tax credits that have been issued in each fiscal year since the repeal of the corporate franchise tax.

	FY 2016	FY 2017	FY 2018	Average
BFT credit redeemed	\$3,098,901	\$2,701,672	\$4,372,771	\$3,391,115

Impact to Total State Revenue		
FY 2020	FY 2021	FY 2022
\$1,695,558	\$3,391,115	\$3,391,115

Oversight confirmed with DOR that the BFT credits redeemed listed above are only the portion claimed under §148.064.6.

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal would disallow the bank franchise tax credit under §148.064.6 beginning with tax year 2020. B&P notes that this proposal does not change the alternative bank tax credit allowed under Section 148.064.7.

B&P further notes that the bank franchise tax was fully phased-out by tax year 2016. However, the language in Section 148.064.6 does not rely on the calculation utilized to determine a franchise tax liability, which would have made any credit equal to zero once the franchise tax rate became zero. Rather, it is a simple asset calculation, which allows banks to claim a positive credit even without a franchise tax being levied.

ASSUMPTION (continued)

The following table shows the bank franchise tax credit redemptions for the previous three fiscal years.

Fiscal Year	Redemptions under Section 148.064.6
2016	\$3,227,364
2017	\$2,756,090
2018	\$4,347,236
3-year average	\$3,443,563

Therefore, B&P estimates that this proposal will increase Total State Revenue and General Revenue by \$3.4 million annually, beginning in FY 2021.

This proposal will impact the calculation under Article X, Section 18(e).

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume there is no fiscal impact from this proposal.

Oversight notes the changes in this proposal would be effective beginning January 1, 2020, and the first income tax returns would be filed reflecting these changes in January, 2021 (FY 2021). For fiscal note purposes, Oversight includes the revenue reductions in the year in which the affected tax returns would be filed; therefore, the first year this proposal would have an impact would be FY 2021.

Based on data provided on DOR's website, Oversight was able to confirm the bank franchise redemption data presented by B&P. Due to the significant difference in redemption data from year to year, Oversight assumes an increase of \$2.7 million to \$4.3 million to General Revenue annually from the elimination of the bank franchise tax credit.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Additional Revenue - DOR - §148.064.6</u> elimination of the bank franchise tax credit	<u>\$0</u>	\$2,700,000 to <u>\$4,300,000</u>	\$2,700,000 to <u>\$4,300,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$2,700,000 to \$4,300,000</u>	<u>\$2,700,000 to \$4,300,000</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small business banks that currently utilize the tax credit could be impacted by this proposal.

FISCAL DESCRIPTION

Current law provides for a tax credit for banking institutions to compensate for franchise taxes paid by banking institutions, as well as a tax credit that may be claimed in the event the corporate franchise tax is repealed by the General Assembly. Because the corporate franchise tax was repealed beginning January 1, 2016, for all tax years beginning on or after January 1, 2020, this act disallows the tax credit designed to compensate for the franchise tax.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
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