

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0458S.01I  
 Bill No.: SB 135  
 Subject: Corporations; Taxation and Revenue - Income  
 Type: Original  
 Date: January 3, 2023

Bill Summary: This proposal phases out the corporate income tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2029)
General Revenue Fund*	(\$71,106,268)	(\$213,535,245)	(\$355,964,222)	(\$712,140,077)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$71,106,268)</b>	<b>(\$213,535,245)</b>	<b>(\$355,964,222)</b>	<b>(\$712,140,077)</b>

\*The impact for FY 2024 is smaller because it reflects a partial year (6 months).

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2029)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>Fully Implemented (FY 2029)</b>
<b>Total Estimated Net Effect on All Federal Funds</b>	<b>\$0</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 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>Fully Implemented (FY 2029)</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>Fully Implemented (FY 2029)</b>
<b>Local Government*</b>	<b>\$0</b>	<b>(\$10,605,669)</b>	<b>(\$21,211,338)</b>	<b>(\$52,792,665)</b>

\*Oversight notes per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. Oversight further notes that the financial institutions tax is distributed to GR (2%) and local funds (98%) on an annual basis and that tax payments for tax year 1 are distributed in FY2.

**FISCAL ANALYSIS**

**ASSUMPTION**

**Section 143.071 Corporate Income Tax Reduction**

Officials from the **Department of Revenue (DOR)** note starting January 1, 2024, this proposal will reduce the corporate tax rate 0.8% a year for the next several years until the rate becomes zero. The current corporate tax rate is 4%. Therefore, starting January 1, 2028, there will be no tax on the Missouri taxable income of corporations. FY 2022 net collections were \$711.1M. Since this proposal is effective January 1, 2024, it is assumed only 6 months of collections will be impacted in FY 2024.

Per Section 148.720 whenever there is a reduction in the corporate tax rate, there shall be a proportional decrease in the financial institutions tax. This proposal will eventually be a 100% reduction in the corporate tax so the financial institutions tax would also have a 100% decrease. The financial institutions tax is currently 4.48% with 98% of it distributed to locals and 2% retained by general revenue. In FY 2022, DOR collected \$53,870,066 in tax. Per Section 148.720, the reduction in the financial institutions tax is reduced in the following year. The tax rates are expected to be:

Tax Year	Corporate Rate	Financial Institutions Rate
2023 current	4.0%	4.48%
2024	3.2%	3.58%
2025	2.4%	2.68%
2026	1.6%	1.79%
2027	0.8%	0.9%
2028	0%	0%
2029	0%	0%

The Department used its internal Income Tax Model that contains confidential taxpayer data from the 2020 tax year (the most recent complete tax year data) to calculate the fiscal impact.

**Impact from Reductions**

	FY24	FY25	FY26	FY27	FY28	FY29
Corporate Tax Elimination	(\$71,106,268)	(\$213,318,803)	(\$355,531,338)	(\$497,743,873)	(\$639,956,408)	(\$711,062,676)
Bank Franchise Elimination		(\$10,822,111)	(\$21,644,223)	(\$32,346,089)	(\$43,168,200)	(\$53,870,066)
Net GR Impact	(\$71,106,268)	(\$224,140,914)	(\$377,175,561)	(\$530,089,962)	(\$683,124,609)	(\$764,932,742)

Funds Impact

Funds impact	FY24	FY25	FY26	FY27	FY28	FY29
GR 2%	\$0	(\$216,442)	(\$432,884)	(\$646,922)	(\$863,364)	(\$1,077,40
Local 98%	\$0	(\$10,605,669)	(\$21,211,338)	(\$31,699,167)	(\$42,304,836)	(\$52,792,6

This proposal will require the Department to change their forms, computer programs and website. These changes are estimated at \$7,193.

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

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal will reduce the corporate income tax by 0.8% per year, starting with tax year 2024. There shall be no corporate income tax beginning with tax year 2028.

B&P notes that under Section 148.720, RSMo, the financial institutions tax (formerly known as the bank franchise taxes) (Sections 148.030, 148.140, and 148.620, RSMo) shall be reduced by a proportional amount to any reduction in the corporate income tax. Such reduction shall occur in the calendar year in which the corporate tax rate is reduced. Table 1 shows the proposed tax rates for corporations and the corresponding reduced financial institution tax rates.

Table 1: Proposed Corporate Tax Rate

Tax Year	Corporate Rate	Franchise Tax Rate
2023	4.00%	4.48%
2024	3.20%	3.58%
2025	2.40%	2.68%
2026	1.60%	1.79%
2027	0.80%	0.89%
2028	0.00%	0.00%

Corporate Income Tax

In FY22, net corporate tax collections were \$711,062,676 at a tax rate of 4.0%.

B&P estimates that reducing the corporate income tax could reduce GR by \$142.2M beginning with tax year 2024. Once fully implemented, B&P estimates this provision could reduce corporate income tax collections by \$711.1M annually.

However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY24. Based on historic remittance patterns, B&P notes that corporate income tax collections are split approximately 50/50 between fiscal years. Table 2 shows the estimate impact on general revenue by fiscal year.

Table 2: Impact to GR  
from Corporate Rate  
Reduction

Tax Year	GR Impact
FY24	(\$71,106,268)
FY25	(\$213,318,803)
FY26	(\$355,531,338)
FY27	(\$497,743,873)
FY28	(\$639,956,408)
FY29	(\$711,062,676)

#### Financial Institution Tax

B&P notes that the financial institution tax is paid annually in the fiscal year following the end of a calendar year. In FY22, financial institutions tax collections were \$53,870,066 at a tax rate of 4.48%.

B&P notes that the financial institutions tax is distributed to GR (2%) and local funds (98%) on an annual basis and that tax payments for tax year 1 are distributed in FY2. For example: tax payments for 2024 will be collected and distributed during FY25. Table 3 shows the estimated impact on state and local funds by fiscal year.

Table 3: State and Local Impact from  
Bank Franchise Tax Reduction

Tax Year	GR (2%)	Local (98%)
FY24	\$0	\$0
FY25	(\$216,442)	(\$10,605,669)
FY26	(\$432,884)	(\$21,211,338)
FY27	(\$646,922)	(\$31,699,167)
FY28	(\$863,364)	(\$42,304,836)
FY29	(\$1,077,401)	(\$52,792,665)

#### Corporate Summary

B&P estimates that this provision may reduce TSR and GR by \$71.1M in FY24. Once fully implemented, this proposal could annually reduce TSR and GR by \$712.1M. This proposal could also reduce local funds by \$52.8M annually once fully implemented. Table 4 shows the impacts by state and local fund by fiscal year.

Table 4: State and Local Impact from Corporate Rate Reduction

	<u>FY24</u>	<u>FY25</u>	<u>FY26</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$71,106,268)	(\$213,318,803)	(\$355,531,338)
Financial Institutions Tax Rate Reduction	\$0	(\$216,442)	(\$432,884)
Total GR Loss	<b>(\$71,106,268)</b>	<b>(\$213,535,245)</b>	<b>(\$355,964,222)</b>
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	<b>\$0</b>	<b>(\$10,605,669)</b>	<b>(\$21,211,338)</b>

Table 4: State and Local Impact from Corporate Rate Reduction (cont.)

	<u>FY27</u>	<u>FY28</u>	<u>FY29</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$497,743,873)	(\$639,956,408)	(\$711,062,676)
Financial Institutions Tax Rate Reduction	(\$646,922)	(\$863,364)	(\$1,077,401)
Total GR Loss	<b>(\$498,390,795)</b>	<b>(\$640,819,772)</b>	<b>(\$712,140,077)</b>
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	<b>(\$31,699,167)</b>	<b>(\$42,304,836)</b>	<b>(\$52,792,665)</b>

**Oversight** notes both DOR and B&P's estimates includes data from DOR and B&P's internal Income Tax Model. **Oversight** does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR. Therefore, for the purpose of this fiscal note, Oversight will note DOR and B&P's estimated impact for this proposal.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (6 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2029)
<b>GENERAL REVENUE FUND</b>				
Revenue Loss - §143.071 – Changes to Corporate Tax and Financial Institutions Tax p. 3-6	<u>(\$71,106,268)</u>	<u>(\$213,535,245)</u>	<u>(\$355,964,222)</u>	<u>(\$712,140,077)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$71,106,268)</u></b>	<b><u>(\$213,535,245)</u></b>	<b><u>(\$355,964,222)</u></b>	<b><u>(\$712,140,077)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (6 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2029)
<b>LOCAL POLITICAL SUBDIVISIONS</b>				
Revenue Loss - §143.071 – Decrease of financial institutions tax p.3-6	<u>\$0</u>	<u>(\$10,605,669)</u>	<u>(\$21,211,338)</u>	<u>(\$52,792,665)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b><u>(\$10,605,669)</u></b>	<b><u>(\$21,211,338)</u></b>	<b><u>(\$52,792,665)</u></b>

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that is obligated to pay corporate income tax or bank franchise tax, as such small business would pay a reduced amount of such tax(es).

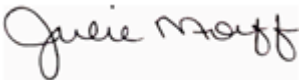
FISCAL DESCRIPTION

This act phases out the corporate income tax over a period of years beginning with the 2024 tax year. Each annual reduction in the tax rate shall be by 0.8%, and beginning with the 2028 tax year there shall be no income tax on corporate income.

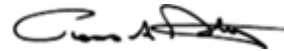
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration - Budget and Planning



Julie Morff  
Director  
January 3, 2023



Ross Strobe  
Assistant Director  
January 3, 2023