

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0712S.02C  
 Bill No.: SCS for SB Nos. 93 & 135  
 Subject: Taxation and Revenue - Income; Corporations  
 Type: Original  
 Date: February 23, 2023

Bill Summary: This proposal reduces 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 2028)
General Revenue*	(\$44,441,417)	(\$133,458,927)	(\$222,476,436)	(\$356,070,039)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$44,441,417)</b>	<b>(\$133,458,927)</b>	<b>(\$222,476,436)</b>	<b>(\$356,070,039)</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 2028)
<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>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2028)
<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>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2028)
<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>				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2028)
<b>Local Government*</b>	<b>\$0</b>	<b>(\$6,599,083)</b>	<b>(\$13,198,166)</b>	<b>(\$26,396,332)</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**

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would reduce the corporate income tax, by 0.5% per year, starting with calendar year 2024, until the tax rate reaches 2.0% for calendar year 2027.

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	3.50%	3.92%
2025	3.00%	3.36%
2026	2.50%	2.80%
2027	2.00%	2.24%

**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 \$88.9M beginning with tax year 2024. Once fully implemented, B&P estimates this provision could reduce corporate income tax collections by \$355.5M 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	(\$44,441,417)
FY25	(\$133,324,252)

FY26	(\$222,207,086)
FY27	(\$311,089,921)
FY28	(\$355,531,338)

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	(\$134,675)	(\$6,599,083)
FY26	(\$269,350)	(\$13,198,166)
FY27	(\$404,025)	(\$19,797,249)
FY28	(\$538,701)	(\$26,396,332)

Corporate Summary

B&P estimates that this provision may reduce TSR and GR by \$44.4M in FY24. Once fully implemented, this proposal could annually reduce TSR and GR by \$356.1M. This proposal could also reduce local funds by \$26.4M 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	(\$44,441,417)	(\$133,324,252)	(\$222,207,086)
Financial Institutions Tax Rate Reduction	\$0	(\$134,675)	(\$269,350)
Total GR Loss	(\$44,441,417)	(\$133,458,927)	(\$222,476,436)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	\$0	(\$6,599,083)	(\$13,198,166)

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

	<u>FY27</u>	<u>FY28</u>
<u>State Impact</u>		
Corporate Tax Rate Reduction	(\$311,089,921)	(\$355,531,338)
Financial Institutions Tax Rate Reduction	(\$404,025)	(\$538,701)
Total GR Loss	(\$311,493,946)	(\$356,070,039)
<u>Local Impact</u>		
Financial Institutions Tax Rate Reduction	(\$19,797,249)	(\$26,396,332)

Officials from the **Department of Revenue (DOR)** note starting January 1, 2024, this proposal will reduce the corporate tax rate 0.5% a year for the next four years until the rate becomes 2%. The current corporate tax rate is 4%. Therefore, starting January 1, 2027 there will be a 2% rate 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 reducing the corporate tax in half so the financial institutions tax would also reduce to half. 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	3.5%	3.92%
2025	3.0%	3.36%
2026	2.5%	2.8%
2027+	2%	2.24%

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 to General Revenue from Reductions

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	(\$44,441,417)	(\$133,324,252)	(\$222,207,086)
Financial Institutions Tax Rate Reduction (2%)	\$0	(\$134,675)	(\$269,350)
Total GR Loss	(\$44,441,417)	(\$133,458,927)	(\$222,476,436)
<u>Local Impact</u>	<u>FY24</u>	<u>FY25</u>	<u>FY26</u>
Financial Institutions Tax Rate Reduction (98%)	\$0	(\$6,599,083)	(\$13,198,166)

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	(\$311,089,921)	(\$355,531,338)	(\$355,531,338)
Financial Institutions Tax Rate Reduction (2%)	(\$404,025)	(\$538,701)	(\$538,701)
Total GR Loss	(\$311,493,946)	(\$356,070,039)	(\$356,070,039)
<u>Local Impact</u>	<u>FY27</u>	<u>FY28</u>	<u>FY29</u>
Financial Institutions Tax Rate Reduction (98%)	(\$19,797,249)	(\$26,396,332)	(\$26,396,332)

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

**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 programming and form costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Department of Commerce and Insurance** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact for this agency in the fiscal note.

**Oversight** notes officials from B&P and DOR both assume the proposal will have a direct fiscal impact on state and local revenues. Oversight does not have any information to the contrary. Therefore, Oversight will utilize 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 2028)
<b>GENERAL REVENUE FUND</b>				
Revenue Loss - §143.071 – Changes to Corporate Income Tax and Financial Institutions Tax p. (3-6)	(\$44,441,417)	(\$133,458,927)	(\$222,476,436)	(\$356,070,039)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>(\$44,441,417)</b>	<b>(\$133,458,927)</b>	<b>(\$222,476,436)</b>	<b>(\$356,070,039)</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (6 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2028)
<b>LOCAL POLITICAL SUBDIVISIONS</b>				
Revenue Loss - §143.071 – Decrease of financial institutions tax p.(3-6)	\$0	(\$6,599,083)	(\$13,198,166)	(\$26,396,332)
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b>\$0</b>	<b>(\$6,599,083)</b>	<b>(\$13,198,166)</b>	<b>(\$26,396,332)</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).

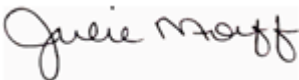
FISCAL DESCRIPTION

Current law imposes a tax on the Missouri taxable income of corporations at a rate of 4%. Beginning with the 2024 calendar year, this act reduces such rate of tax by 0.5% per year until the tax imposed on the Missouri taxable income of corporations reaches 2% beginning with the 2027 tax year.

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  
Department of Commerce and Insurance



Julie Morff  
Director  
February 23, 2023



Ross Strobe  
Assistant Director  
February 23, 2023