

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3671S.01I  
 Bill No.: SB 823  
 Subject: Taxation and Revenue - Income; Corporations  
 Type: Original  
 Date: January 26, 2024

Bill Summary: This proposal reduces the corporate income tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2030)
General Revenue	(\$24,873,513)*	(\$55,315,051)	(\$105,062,077)	(\$387,205,358)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$24,873,513)*</b>	<b>(\$55,315,051)</b>	<b>(\$105,062,077)</b>	<b>(\$387,205,358)</b>

\*The impact for FY 2025 is smaller because it reflects a partial year (6 months).

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2030)
<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 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>Fully Implemented (FY 2030)</b>
<b>Total Estimated Net Effect on <u>All</u> 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 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>Fully Implemented (FY 2030)</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 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>Fully Implemented (FY 2030)</b>
<b>Local Government*</b>	<b>\$0</b>	<b>(\$1,988,327)</b>	<b>(\$1,988,327)</b>	<b>(\$13,918,289)</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 **Office of Administration - Budget and Planning (B&P)** note this proposal will reduce the corporate income tax to 3.75%, starting with tax year 2025. Beginning with calendar year 2026, the corporate income tax may be reduced by an additional 0.5% when the revenue from tax on income of corporations exceeds the highest amount collected in any prior fiscal year by at least \$50 million. No more than three additional reductions shall occur.

Based on current revenue forecasts, B&P notes that the additional 0.5% reduction would not be triggered for tax year 2026, based on estimated FY25 estimated revenues. Therefore, for the purpose of this fiscal note, B&P will assume that the additional reductions will be triggered for tax year 2027, 2028, and 2029.

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
Current	4.00%	4.48%
2025	3.75%	4.20%
2026	3.75%	4.20%
2027	3.25%	3.64%
2028	2.75%	3.08%
2029	2.25%	2.52%

\*Assumes additional rate reductions triggered in TY27, TY28, and TY29.

Corporate Income Tax

In FY23, net corporate tax collections were \$884,391,568 at a tax rate of 4.0%.

B&P estimates that reducing the corporate income tax could reduce GR by \$55,274,473 beginning with tax year 2025. Once fully implemented, B&P estimates this provision could reduce corporate income tax collections by \$386,921,311 annually. Table 2 shows the estimated impact by tax year.

Table 2: Est. Corp  
 Impact by Tax Year

Tax Year	GR Impact
2025	(\$55,274,473)
2026	(\$55,274,473)
2027	(\$165,823,419)
2028	(\$276,372,365)
2029	(\$386,921,311)

However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY25. Based on actual collections, B&P estimates that corporate tax collections are received 45% in FY1 and 55% in FY2. Therefore, B&P will reflect the potential loss with the same 45/55 split. Table 3 shows the estimate impact on general revenue by fiscal year.

Table 3: Est. Corp Impact  
 by Fiscal Year

Fiscal Year	GR Impact
FY25	(\$24,873,513)
FY26	(\$55,274,473)
FY27	(\$105,021,499)
FY28	(\$215,570,445)
FY29	(\$326,119,391)
FY30	(\$386,921,311)

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 FY23, financial institutions tax collections were \$32,462,482 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 2025 will be collected and distributed during FY26. Table 4 shows the estimated impact on state and local funds by fiscal year.

Table 4: State and Local Impact  
from Brank Franchise Tax  
Reduction

Tax Year	GR (2%)	Local (98%)
FY25	\$0	\$0
FY26	(\$40,578)	(\$1,988,327)
FY27	(\$40,578)	(\$1,988,327)
FY28	(\$121,734)	(\$5,964,981)
FY29	(\$202,891)	(\$9,941,635)
FY30	(\$284,047)	(\$13,918,289)

### **Bill Summary**

B&P estimates that this proposal could reduce TSR and GR by \$24,873,513 in FY25. Once fully implemented, this proposal could reduce TSR and GR by \$387,205,358 annually. In addition, this proposal could reduce local revenues by \$13,918,289 annually once fully implemented.

Table 5: State and Local Impact from Corporate Rate Reduction

	<u>FY25</u>	<u>FY26</u>	<u>FY27</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$24,873,513)	(\$55,274,473)	(\$105,021,499)
Financial Institutions Tax Rate Reduction	\$0	(\$40,578)	(\$40,578)
Total GR Loss	(\$24,873,513)	(\$55,315,051)	(\$105,062,077)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	\$0	(\$1,988,327)	(\$1,988,327)

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

	<u>FY28</u>	<u>FY29</u>	<u>FY30</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$215,570,445)	(\$326,119,391)	(\$386,921,311)
Financial Institutions Tax Rate Reduction	(\$121,734)	(\$202,891)	(\$284,047)
Total GR Loss	(\$215,692,179)	(\$326,322,282)	(\$387,205,358)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	(\$5,964,981)	(\$9,941,635)	(\$13,918,289)

Officials from the **Department of Revenue (DOR)** note starting January 1, 2025, this proposal will reduce the corporate tax rate to 3.75%. Then beginning in 2026, the corporate rate will decrease over a period of years by 0.5% a year for the next three years based on certain revenue triggers. The current corporate tax rate is 4%. FY 2023 net collections were \$884 M. Since this proposal is effective January 1, 2025, it is assumed only 6 months of collections will be impacted in FY 2025.

DOR uses a 45%/55% split when converting corporate tax from tax year to fiscal year. DOR notes that based on the current revenue forecast, the additional 0.5% reduction will not trigger for tax year 2026. DOR notes the department is unable to say for certain when the next rate reduction will occur. For fiscal note purposes only, DOR will show the impact in consecutive years for the additional reductions.

Tax Year	Corporate Rate
2024 current	4%
2025	3.75%
2026	3.75%
2027	3.25%
2028	2.75%
2029	2.25%
2030+	2.25%

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. The financial institutions tax rate is currently 4.48% with 98% of it distributed to locals and 2% retained by general revenue. In FY 2023, DOR collected \$33 M 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:

Proposed Corporate & Financial Institutions Tax Rates		
Tax Year	Corporate Tax Rate	Financial Institutions Tax Rate
2025	3.75%	4.20%
2026	3.75%	4.20%
2027	3.25%	3.64%
2028	2.75%	3.08%
2029	2.25%	2.52%

This proposal will result in the following loss.

State and Local Impact from Corporate Rate Reduction

	<u>FY25</u>	<u>FY26</u>	<u>FY27</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$24,873,513)	(\$55,274,473)	(\$105,021,499)
Financial Institutions Tax Rate Reduction	\$0	(\$40,578)	(\$40,578)
Total GR Loss	(\$24,873,513)	(\$55,315,051)	(\$105,062,077)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	\$0	(\$1,988,327)	(\$1,988,327)

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

	<u>FY28</u>	<u>FY29</u>	<u>FY30</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$215,570,445)	(\$326,119,391)	(\$386,921,311)
Financial Institutions Tax Rate Reduction	(\$121,734)	(\$202,891)	(\$284,047)
Total GR Loss	(\$215,692,179)	(\$326,322,282)	(\$387,205,358)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	(\$5,964,981)	(\$9,941,635)	(\$13,918,289)

This proposal will require the Department to change their forms, computer programs and website. These changes are estimated at \$8,923 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 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 in the fiscal note for this agency.

According to DOR reports, **Oversight** notes the following collections in corporate income tax:

<u>Fiscal Year</u>	<u>Corporate Income Tax</u>
FY 2023 (as reported above)	\$884,391,568
FY 2022	\$711,062,676
FY 2021	\$798,110,636

**Oversight** will utilize DOR and B&P's estimated impact for this proposal.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (6 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2030)
<b>GENERAL REVENUE FUND</b>				
<u>Revenue Loss - §143.071 - Corporate Income Tax Rate Reduction</u>	(\$24,873,513)	(\$55,274,473)	(\$105,021,499)	(\$386,921,311)
<u>Revenue Loss - §143.071 - Financial Institutions Tax Rate Reduction</u>	\$0	(\$40,578)	(\$40,578)	(\$284,047)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>(\$24,873,513)</b>	<b>(\$55,315,051)</b>	<b>(\$105,062,077)</b>	<b>(\$387,205,358)</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (6 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2030)
<b>LOCAL POLITICAL SUBDIVISIONS</b>				
<u>Revenue Loss - §143.071 - Financial Institutions Tax Rate Reduction</u>	\$0	(\$1,988,327)	(\$1,988,327)	(\$13,918,289)
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b>\$0</b>	<b>(\$1,988,327)</b>	<b>(\$1,988,327)</b>	<b>(\$13,918,289)</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).

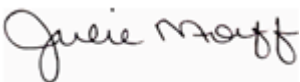
FISCAL DESCRIPTION

Current law imposes a tax on the Missouri taxable income of corporations at a rate of 4%. Beginning with the 2025 calendar year, this act reduces such rate of tax to 3.75%. Beginning with the 2026 calendar year, this act allows for three additional potential 0.5% reductions, for an eventual rate of 2.25%. Such additional reductions shall only occur if the amount of corporate income tax revenue collections for the immediately preceding fiscal year exceeds the highest amount of corporate income tax revenue collections from any fiscal year prior to the immediately preceding fiscal year by at least \$50 million.

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  
January 26, 2024



Ross Strobe  
Assistant Director  
January 26, 2024