

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1151S.01I  
Bill No.: SB 370  
Subject: Corporations; Taxation and Revenue - Income  
Type: Original  
Date: March 11, 2025

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2031)
General Revenue	(\$80,371,164)	(\$259,099,526)	(\$437,827,887)	Less than (\$893,639,013)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$80,371,164)</b>	<b>(\$259,099,526)</b>	<b>(\$437,827,887)</b>	<b>Less than (\$893,639,013)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2031)
<b>Total Estimated Net Effect on <u>Other State</u> 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 2026	FY 2027	FY 2028	Fully Implemented (FY 2031)
<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>				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2031)
<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 2026	FY 2027	FY 2028	Fully Implemented (FY 2031)
<b>Local Government</b>	<b>\$0</b>	<b>(\$6,162,938)</b>	<b>(\$12,325,876)</b>	<b>(\$30,677,736)</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

#### **Section 143.071 - Corporate Income Tax & Financial Institutions Tax Rate**

Officials from **Office of Administration - Budget and Planning** state this proposal will reduce the corporate income by 0.8% each year, starting with tax year 2026. Beginning with tax year 2029, there shall no longer be a tax on corporate income.

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%
2026	3.20%	3.58%
2027	2.40%	2.68%
2028	1.60%	1.79%
2029	0.80%	0.89%
2030	0.00%	0.00%

#### **Corporate Income Tax**

In FY24, net corporate tax collections were \$893,012,937 at a tax rate of 4.0%.

B&P estimates that reducing the corporate income tax could reduce GR by \$178,602,587 beginning with tax year 2026. Once fully implemented, B&P estimates this provision could reduce GR by \$893,012,937 annually. Table 2 shows the estimated impact by tax year.

Table 2: Est. Corp Impact by Tax Year

Tax Year	GR Impact
2026	(\$178,602,587)
2027	(\$357,205,175)
2028	(\$535,807,762)
2029	(\$714,410,349)
2030	(\$893,012,937)

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
FY26	(\$80,371,164)
FY27	(\$258,973,752)
FY28	(\$437,576,339)
FY29	(\$616,178,926)
FY30	(\$794,781,514)
FY31	(\$893,012,937)

#### 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 FY24, financial institutions tax collections were \$31,303,812 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 2026 will be collected and distributed during FY27. Table 4 shows the estimated impact on state and local funds by fiscal year.

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

Tax Year	GR (2%)	Local (98%)
FY26	\$0	\$0
FY27	(\$125,774)	(\$6,162,938)
FY28	(\$251,548)	(\$12,325,876)
FY29	(\$375,925)	(\$18,420,337)
FY30	(\$501,699)	(\$24,583,275)
FY31	(\$626,076)	(\$30,677,736)

B&P estimates that this proposal could reduce TSR and GR by \$80,371,164 in FY26. Once fully implemented, this proposal could reduce TSR and GR by \$893,639,013 annually. In addition, this proposal could reduce local revenues by \$30,677,736 annually once fully implemented.

Table 5: State and Local Impact from Corporate Rate Reduction

	<u>FY26</u>	<u>FY27</u>	<u>FY28</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$80,371,164)	(\$258,973,752)	(\$437,576,339)
Financial Institutions Tax Rate Reduction	\$0	(\$125,774)	(\$251,548)
Total GR Loss	(\$80,371,164)	(\$259,099,526)	(\$437,827,887)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	\$0	(\$6,162,938)	(\$12,325,876)

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

	<u>FY29</u>	<u>FY30</u>	<u>FY31</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$616,178,926)	(\$794,781,514)	(\$893,012,937)
Financial Institutions Tax Rate Reduction	(\$375,925)	(\$501,699)	(\$626,076)
Total GR Loss	(\$616,554,851)	(\$795,283,213)	(\$893,639,013)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	(\$18,420,337)	(\$24,583,275)	(\$30,677,736)

Officials from the **Department of Revenue (DOR)** note starting January 1, 2026, 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, 2030, there will be no tax on the Missouri taxable income of corporations. FY 2024 net collections were \$893,012,937. Since this proposal is effective January 1, 2026, it is assumed only 6 months of collections will be impacted in FY 2026.

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 2024, DOR collected \$31,303,812 in net 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
Current	4.0%	4.48%
2026	3.2%	3.58%
2027	2.4%	2.68%
2028	1.6%	1.79%
2029	0.8%	0.89%
2030	0.0%	0.0%

The Department used its internal Income Tax Model that contains confidential taxpayer data from the 2022 tax year (the most recent complete tax year data) to calculate the fiscal impact. Based on actual collections, DOR notes that corporate tax collections are received 45% in FY1 and 55% in FY2.

#### State and Local Impact from Corporate Rate Reduction

	FY26	FY27	FY28
State Impact			
Corporate Tax Rate Reduction	(\$80,371,164)	(\$258,973,752)	(\$437,576,339)
Financial Institutions Tax Rate Reduction	\$0	(\$125,774)	(\$251,548)
Total GR Loss	(\$80,371,164)	(\$259,099,526)	(\$437,827,887)
Local Impact	FY26	FY27	FY28
Financial Institutions Tax Rate Reduction	\$0	(\$6,162,938)	(\$12,325,876)

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

	FY29	FY30	FY31
State Impact			
Corporate Tax Rate Reduction	(\$616,178,926)	(\$794,781,514)	(\$893,012,937)
Financial Institutions Tax Rate Reduction	(\$375,925)	(\$501,699)	(\$626,076)
Total GR Loss	(\$616,554,851)	(\$795,283,213)	(\$893,639,013)
Local Impact	FY29	FY30	FY31
Financial Institutions Tax Rate Reduction	(\$18,420,337)	(\$24,583,275)	(\$30,677,736)

DOR notes that approximately 122,980 corporate returns are electronically filed annually, and 3,683 paper returns are processed. Although it eventually eliminates the state corporate income tax, the proposed legislation does not eliminate the corporate income tax return filing requirement provided for in Section 143.481(6), RSMo, which is dependent upon the corporation's gross income from sources in Missouri, rather than its Missouri corporate income tax amount.

This proposal will require the Department to change their forms (\$4,400), computer programs, both corporate & financial institutions (\$14,654) and website. These changes are estimated at \$19,054 annually.

**Oversight** does not have information to the contrary and therefore, Oversight will reflect the above costs as provided by DOR in FY 2026.

Officials from the **Department of Commerce and Insurance** defer to the Office of Administration - Budget and Planning for the potential fiscal impact of this proposal.

**Oversight** will utilize BAP's and DOR's estimated impact for this proposal.

**Oversight** notes the fiscal impact estimated by DOR is based on net corporate income tax collections, therefore this estimate already includes the potential that corporate tax credits would no longer be redeemed.

**Oversight** will also reflect a savings to the Department of Revenue for administration of the corporate income tax. Oversight assumes DOR will have savings related to processing of the returns, processing of the tax credits, and the conducting of audits. The corporate income tax is eliminated beginning January 1, 2030; however, Oversight assumes it will take some time to wrap up all corporate tax matters.

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2031)
<b>GENERAL REVENUE FUND</b>				
<u>Savings - §143.071 - DOR - no longer administering the corporate income tax starting tax year 2030</u>	\$0	\$0	\$0	Unknown
<u>Revenue Reduction - §143.071 - Corporate Income Tax Rate Reduction*</u>	(\$80,371,164)	(\$258,973,752)	(\$437,576,339)	(\$893,012,937)
<u>Revenue Reduction - §143.071 - Financial Institutions Tax Rate Reduction</u>	\$0	(\$125,774)	(\$251,548)	(\$626,076)

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2031)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$80,371,164)</u></b>	<b><u>(\$259,099,526)</u></b>	<b><u>(\$437,827,887)</u></b>	<b><u>Less than (\$893,639,013)</u></b>

\***Oversight** notes the fiscal impact estimated by DOR is based on net corporate income tax collections, therefore this estimate already includes the potential that corporate tax credits would no longer be redeemed.

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2031)
<b>LOCAL POLITICAL SUBDIVISIONS</b>				
<u>Revenue Reduction - §143.071 - Financial Institutions Tax Rate Reduction</u>	<u>\$0</u>	<u>(\$6,162,938)</u>	<u>(\$12,325,876)</u>	<u>(\$30,677,736)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b><u>(\$6,162,938)</u></b>	<b><u>(\$12,325,876)</u></b>	<b><u>(\$30,677,736)</u></b>

#### FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that is obligated to pay corporate income tax and/or financial institutions tax, as such small business would pay a reduced amount of such tax(es), and eventually no corporate income/financial institutions tax.

#### FISCAL DESCRIPTION

This act phases out the corporate income tax over a period of years beginning with the 2026 tax year. Each annual reduction in the tax rate shall be by 0.8%, and beginning with the 2030 tax year there shall be no income tax on corporate income.



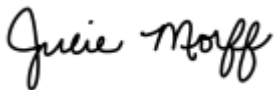
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue

Office of Administration - Budget and Planning

Department of Commerce and Insurance



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