

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0521-02  
Bill No.: SB 65  
Subject: Business and Commerce; Corporations; Revenue Dept.; Taxation and Revenue-  
 General  
Type: Original  
Date: January 22, 2001

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$142,308,896)	(\$75,234,016)	(\$78,164,652)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$142,308,896)</b>	<b>(\$75,234,016)</b>	<b>(\$78,164,652)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 4 pages.

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## **FISCAL ANALYSIS**

### ASSUMPTION

Officials of the **Office of Administration (COA) - Budget and Planning (BAP)** state this bill eliminates the corporate franchise tax for tax years after January 1, 2001. The tax due for the January 1, 2001 tax year must be paid by April 15, 2001. If this bill were passed the tax would have already been collected and would have to be refunded in FY02. Therefore, the revenue loss to the state in FY02 would be \$69.9 million, the amount of the FY01 tax to be refunded, plus \$72.4 million, the amount not collected in FY02. The corporate franchise tax estimate is from the Consensus Revenue Estimate.

Officials of the **Department of Revenue (DOR)** state this legislation will decrease Total State Revenues by the amount of franchise taxes collected. For fiscal year 1998-1999 there was over \$91 million collected in corporate franchise tax prior to the franchise tax cut in HB 516 (1999).

### **ADMINISTRATIVE IMPACT:**

Although this legislation abolishes corporate franchise tax after January 1, 2001, the Department will still be responsible for administering the tax for prior years and will need to maintain the system until all the cases are closed. In order to continue collection efforts and the enforcement of franchise tax laws, the Department will phase out the five FTE allocated to franchise tax. The Division of Taxation anticipates a savings of two FTE in FY 2005, two FTE in FY 2006, and one FTE in FY 2007. Any equipment and expenses still on hand will be utilized in other areas.

**Oversight** will show administrative savings for DOR for two FTE in FY 2003 and two FTE in FY 2004 since FY 2002 will be the last year filing will be required. In addition, Oversight has included mailing costs for the FY 2002 refunds.

In a previous similar proposal, officials of the **Department of Economic Development (DED)-Division of Finance** stated that banks do not pay Chapter 147 franchise taxes. Therefore this proposal would not affect banks.

Officials from DED assume that costs incurred as a result of the proposed legislation would be zero to minimal and could be absorbed within their respective budgets.

**This proposal would result in a decrease in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
<b>GENERAL REVENUE FUND</b>			
<u>Savings to General Revenue</u>			
<u>Department of Revenue (DOR)</u>			
Personal Service (2 FTE)	\$0	\$43,444	\$89,060
Fringe Benefits	\$0	\$14,480	\$29,684
Expense and Equipment	\$0	\$8,060	\$16,604
Total Administrative <u>Savings</u> to DOR	\$0	\$65,984	\$135,348
<u>Loss to General Revenue Fund</u>			
Elimination of the Corporate Franchise Tax	(\$142,300,000)	(\$75,300,000)	(\$78,300,000)
<u>Cost to General Revenue Fund (DOR)</u>			
Postage	(\$8,896)	\$0	\$0
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$142,308,896)</u></b>	<b><u>(\$75,234,016)</u></b>	<b><u>(\$78,164,652)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

This legislation will reduce the amount of paperwork for some small businesses.

DESCRIPTION

This act terminates the corporate franchise tax law, effective December 31, 2001.

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 Economic Development

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is written in a cursive style with a large initial "J".

Jeanne Jarrett, CPA  
Director  
January 22, 2001