

COMMITTEE ON LEGISLATIVE RESEARCH
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0521-03
Bill No.: SCS for SB 65
Subject: Business and Commerce; Corporations; Taxation and Revenue-General
Type: Revised
Date: March 13, 2001
 #Revised to reflect change in calculating revenue loss estimate, per Oversight Subcommittee.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue#	(\$65,667,838)	(\$68,275,490)	(\$71,146,156)
Total Estimated Net Effect on All State Funds#	(\$65,667,838)	(\$68,275,490)	(\$71,146,156)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on All Federal Funds	\$0	\$0	\$0

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

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 4 pages.

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, 2002. The tax due for the January 1, 2002 tax year must be paid by April 15, 2002. The revenue loss to the state in FY02 would be \$72.4 million. The corporate franchise tax estimate is from the FY02 Consensus Revenue Estimate.

#Oversight adjusted the calculations for the revenue loss by subtracting \$4 million from the expected franchise tax revenue prior to the 1999 law change (4% growth assumed), then subtracting one-third of this amount (the estimated loss from the reduction in the franchise tax rate) to get an estimated revenue loss of \$65.7 million in FY02, \$68.4 million in FY03 and \$71.3 million in FY04.

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, 2002, 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 2002, two FTE in FY 2003 and one FTE in FY 2004 since FY 2001 will be the last year filing will be required.

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
GENERAL REVENUE FUND			
<u>Savings to General Revenue</u>			
<u>Department of Revenue (DOR)</u>			
Personal Service (2/2/1 FTE)	\$21,193	\$86,888	\$111,325
Fringe Benefits	\$7,064	\$28,960	\$37,105
Expense and Equipment	<u>\$3,905</u>	<u>\$8,662</u>	<u>\$5,414</u>
Total Administrative <u>Savings</u> to DOR	\$32,162	\$124,510	\$153,844
<u>Loss to General Revenue Fund</u>			
Elimination of the Corporate Franchise Tax#	(\$65,700,000)	(\$68,400,000)	(\$71,300,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND#	<u>(\$65,667,838)</u>	<u>(\$68,275,490)</u>	<u>(\$71,146,156)</u>

<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, 2002.

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
March 13, 2001