

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0525-01
Bill No.: SB 94
Subject: Corporations; Revenue Dept.; Taxation and Revenue-General-Income
Type: Original
Date: January 19, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$0	\$0	\$0
Outstanding Schools Trust	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	(\$8,000,000)	(\$15,400,000)	(\$23,000,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation phases in the full deductibility of federal income taxes on the Missouri income tax return. A corporate taxpayer may deduct sixty-seven percent of its federal income tax liability beginning January 1, 2001, eighty-three percent beginning January 1, 2002, and one hundred percent beginning January 1, 2003.

DOR assumes the corporate tax system (COINS) will need modifications to add error and notice messages and to change the forms and reports produced. DOR anticipates these modifications will take 87 hours of contract labor, at a cost of \$2,902. However, because the costs are minimal, DOR will absorb the costs for this project. Therefore, there is little or no administrative impact to the Department of Revenue.

Officials of the **Office of Administration (COA) - Budget and Planning (BAP)** state this proposal phases in the federal income tax deduction for corporations, 67% in CY01, 83% in CY02, and 100% in CY03. The corporate income tax loss due to this proposal would be (\$8 million) for FY 2002, (\$15.4 million) in FY 2003 and (\$23 million) for FY 2004. These estimates are from the Consensus Revenue Forecast and Budget & Planning's Corporate Income Tax Simulator. The revenue reductions from this proposal will require an equivalent amount of general revenue in order to fully fund the Foundation Formula.

Oversight will reflect the impact of this proposal as a loss to local school districts.

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

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
	(10 Mo.)		
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Increase in Federal Income Tax Deduction	(\$8,000,000)	(\$15,400,000)	(\$23,000,000)
<u>Savings to General Revenue Fund</u>			
Reduction in funds transferred to Outstanding Schools Trust Fund	<u>\$8,000,000</u>	<u>\$15,400,000</u>	<u>\$23,000,000</u>

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**OUTSTANDING SCHOOLS TRUST
FUND**

<u>Loss to Outstanding Schools Trust Fund</u> Reduction in funds transferred from General Revenue Funds	(\$8,000,000)	(\$15,400,000)	(\$23,000,000)
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<u>Savings Outstanding Schools Trust Fund</u> Reduction in funds transferred to local school districts	<u>\$8,000,000</u>	<u>\$15,400,000</u>	<u>\$23,000,000</u>
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ESTIMATED NET EFFECT TO OUTSTANDING SCHOOLS TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
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SCHOOL DISTRICTS

<u>Loss to Local School Districts</u> Reduction in funds transferred from The Outstanding Schools Trust Fund	<u>(\$8,000,000)</u>	<u>(\$15,400,000)</u>	<u>(\$23,000,000)</u>
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ESTIMATED NET EFFECT ON SCHOOL DISTRICTS	<u>(\$8,000,000)</u>	<u>(\$15,400,000)</u>	<u>(\$23,000,000)</u>
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FISCAL IMPACT - Small Business

This legislation may result in a small reduction in Missouri income taxes.

DESCRIPTION

Current law limits the amount of federal income tax a corporation can deduct from its state income tax to 50% of its federal income tax liability for that taxable year. This act phases in full deductibility of federal income taxes paid by corporations as follows: for tax year 2001, the limit is increased to 67%; for tax year 2002, the limit is increased to 83%; and for tax years 2003 and thereafter, a full deduction is allowed.

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



Jeanne Jarrett, CPA
Director
January 19, 2001