

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3759-01
Bill No.: SB 908
Subject: Business and Commerce; Corporations; Taxation and Revenue-General
Type: Original
Date: February 4, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$134,067,270)	(\$71,173,162)	(\$74,043,173)
Total Estimated Net Effect on <u>All</u> State Funds	(\$134,067,270)	(\$71,173,162)	(\$74,043,173)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

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 2000 there was over \$78 million collected in corporate franchise tax. Also, the franchise tax collected for FY02 will be paid by April 15, 2002, and therefore will have to be refunded.

Although this legislation abolishes corporate franchise tax after January 1, 2002, the DOR 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 DOR will phase out the five FTE allocated to franchise tax. The Division of Taxation anticipates a savings of two FTE in FY 2006, two FTE in FY 2007, and one FTE in FY 2008. 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, two FTE in FY 2004 and one FTE in FY 2005 since FY 2002 will be the last year filing will be required.

Officials of the **Office of Administration, 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. If this bill were passed the tax would have already been collected and would have to be refunded in FY03. Therefore, the revenue loss to the state in FY03 would be \$74.4 million, the amount of the FY02 tax to be refunded, plus \$76.3 million, the amount not collected in FY03. The corporate franchise tax estimate is from the Consensus Revenue Estimate.

Oversight adjusted the calculations for the revenue loss, as directed by the Oversight Subcommittee on March 13, 2001 for a similar prior proposal, 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 \$134.1 million in FY03 (\$65.7 million refunded from FY02 plus \$68.4 million estimated revenue in FY03), \$71.3 million in FY04 and \$74.2 million in FY05.

Officials of the **Department of Economic Development (DED)** assume the proposed legislation would not fiscally impact their agency.

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

<u>FISCAL IMPACT - State Government</u>	FY 2003 (6 Mo.)	FY 2004	FY 2005
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	\$7,632	\$31,288	\$40,088
Expense and Equipment	<u>\$3,905</u>	<u>\$8,662</u>	<u>\$5,414</u>
Total Administrative <u>Savings</u> to DOR	\$32,730	\$126,838	\$156,827
<u>Loss to General Revenue Fund</u>			
Elimination of the Corporate Franchise Tax	<u>(\$134,100,000)</u>	<u>(\$71,300,000)</u>	<u>(\$74,200,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$134,067,270)</u>	<u>(\$71,173,162)</u>	<u>(\$74,043,173)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (6 Mo.)	FY 2004	FY 2005
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

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

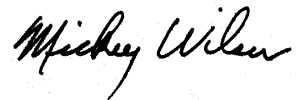
DESCRIPTION

This act terminates the corporate franchise tax law for tax years beginning after January 1, 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



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