

HCS HB 218 -- CORPORATE INCOME TAX RATE REDUCTIONS

SPONSOR: Stevenson

COMMITTEE ACTION: Voted "do pass" by the Special Committee on Tax Reform by a vote of 7 to 1.

This substitute authorizes a gradual reduction in the corporate income tax rate for tax years beginning January 1, as follows: 2008 from 6.25% to 5%; 2009 to 3.75%; 2010 to 2.5%; 2011 to 1.25%; and 2012 and after no corporate income tax will be imposed. The substitute authorizes a matching reduction in the financial institution taxes imposed on banks, credit institutions, credit unions, and savings and loans associations.

FISCAL NOTE: Estimated Cost on General Revenue Fund of \$0 in FY 2008, \$24,200,000 in FY 2009, and \$96,800,000 in FY 2010. No impact on Other State Funds in FY 2008, FY 2009, and FY 2010.

PROPOSERS: Supporters say that the bill provides a gradual reduction in the corporate income tax rate. Income from corporations has been declining in recent years with more businesses being formed as LLC and S corporations. These are flow-through entities where the tax is paid by the individual. Without a corporate income tax, Missouri could attract and keep large corporate businesses and improve economic development in Missouri. Nevada, Washington, and Wyoming have no corporate income tax, and their sales tax is competitive to Missouri's rates.

Testifying for the bill were Representative Stevenson; Taxpayers Research Institute of Missouri; National Federation of Independent Business; Missouri Chamber of Commerce and Industry; and Missouri Retailers Association.

OPPOSERS: Those who oppose the bill say that there is concern with the revenue impact on the bill since the Department of Revenue combined reporting of corporate tax and franchise tax. The actual loss could be \$350 million in general revenue funds. Missouri ranks almost the lowest in the nation being forty-fourth out of 46 states with a corporate tax. Once eliminated, the corporate income tax could not be reinstated without a vote of the people. Currently, 5.5% of the total state revenue is from corporations. Missouri needs the revenue to continue funding education, higher education, and the Missouri Medicaid Program. The bill will lower the current tax credit structure and reduce the benefits from tax credits. The historic preservation tax credits have successfully assisted with the revitalization of downtown areas across Missouri.

Testifying against the bill were Missouri Budget Project;
Missouri National Education Association; and Missouri Association
for Social Welfare.