

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0109-02  
Bill No.: HB 86  
Subject: Corporations; Revenue Dept.; Taxation and Revenue - General  
Type: Original  
Date: February 4, 2009

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Bill Summary: Would change the threshold amount used in calculating the corporate franchise tax rate.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	\$0	(\$7,180,344 to \$12,200,000)	(\$7,180,344 to \$12,200,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>(\$7,180,344 to \$12,200,000)</b>	<b>(\$7,180,344 to \$12,200,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 5 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<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 FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no added cost to their organization as a result of this proposal. BAP officials provided this estimate of the fiscal impact to the state.

This proposal would change the threshold amount from \$1 million to \$10 million used in calculating the corporate franchise tax rate. In FY06, the cumulative amount of franchise tax collected from taxpayers with asset bases below \$10 million was equal to \$12.2 million. Thus, general and total state revenues may be reduced up to \$12.2 million each fiscal year.

Officials from the **Department of Revenue** (DOR) assume this proposal would have no fiscal impact to their organization.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would maintain the annual franchise tax rate, yet change the threshold that must be met by the corporation's outstanding shares and surplus. For all taxable years beginning on or after January 1, 2000, but ending before December 31, 2009, the tax rate would be 1/30th of one percent and the threshold would be \$1 million. For taxable years beginning on or after January 1, 2010, the tax rate would be 1/30th of one percent but the threshold would increase to \$10 million.

EPARC developed an estimate of the fiscal impact of this proposal using the latest available corporate tax data from 2006. EPARC estimated the total franchise tax due for 2009 based on existing provisions at \$79,230,613.05. EPARC estimated the total franchise tax due for 2010 with the increased threshold at \$72,050,269.22. Thus, EPARC estimated that net franchise tax revenue would decrease by \$7,180,343.83.

**Oversight** will indicate a range of fiscal impact using the BAP and EPARC estimates of revenue reductions. Oversight notes that the proposal would first impact tax returns for 2010 filed in FY 2011, and assumes that any savings to be realized by the Department of Revenue from processing a reduced number of corporate franchise tax returns would not be significant.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
<b>GENERAL REVENUE</b>			
<u>Revenue reduction - Department of Revenue</u>			
Increase in threshold amount for the corporate franchise tax.	\$0	<u>(\$7,180,344 to \$12,200,000)</u>	<u>(\$7,180,344 to \$12,200,000)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>(\$7,180,344 to \$12,200,000)</u></b>	<b><u>(\$7,180,344 to \$12,200,000)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
	\$0	\$0	\$0

#### FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to incorporated small businesses.

#### FISCAL DESCRIPTION

This proposal would change the threshold amount used in calculating the corporate franchise tax rate.

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

Office of Administration  
    Division of Budget and Planning  
Department of Revenue  
University of Missouri  
    Economic Policy Analysis and Research Center

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
February 4, 2009