COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0383-01
Bill No.: HB 77
Subject: Corporations, Revenue Dept., Taxation and Revenue - General
Type: Original
Date: March 18, 2011

Bill Summary: Would phase out the corporate franchise tax over a five-year period.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	$0	($27,825,559)	($42,218,090)
Total Estimated Net Effect on General Revenue Fund	**$0**	**($27,825,559)**	**($42,218,090)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ 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).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS, for Administrative Rules, is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume the proposed legislation would not result in additional costs or savings to their organization. BAP officials state that FY 2010 franchise tax collections excluding refunds totaled $91.6 million. However, collections were expected to be an estimated $14.6 million less in FY 2011 according to the fiscal note for HB191 (2009). Therefore BAP makes the following estimate:

Fiscal year	Franchise Tax Rate	Franchise Tax	Difference
FY 2011	0.0333%	$77.0	$0.0
FY 2012	0.0227%	$52.5	$24.5
FY 2013	0.0172%	$39.8	$37.2
FY 2014	0.0139%	$32.1	$44.9
FY 2015	0.0116%	$26.9	$50.1
FY 2016	0.000%	$0.0	$77.0

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume that if enacted, this legislation would gradually phase-out the corporate franchise tax over a five year period..

For 2011, the rate would remain at one-thirtieth of one percent and the threshold amount would remain at $10 million dollars. For 2012, the rate would be reduced to one forty-fourth of one percent. For 2013, the rate would be reduced to one fifty-eighth of one percent. For 2014, the rate would be reduced to one seventy-second of one percent. For 2015, the rate shall decrease to one eighty-sixth of one percent. Effective January 1, 2016, no corporate franchise tax would be imposed.

The following estimates were generated using corporate tax data from 2008. This table reports the potential total franchise tax due for corporations with assets greater than $10 million in Missouri for the years 2011 through 2016 due to this legislation.

Year	Franchise Tax Rate	Franchise Tax Due	Reduction in Franchise Tax
2011	1/30 of 1%	$76,703,328	$0
2012	1/44 of 1%	$52,297,724	$24,405,604
2013	1/58 of 1%	$36,674,135	$37,029,193
2014	1/72 of 1%	$31,959,720	$44,743,608
2015	1/86 of 1%	$26,756,975	$49,946,353
2016	None	$0	$76,703,328

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would change the corporate franchise and bank franchise tax rates and would eventually phase out the tax. That changes would create an annual negative impact to total state revenue in FY12 of $25.3 million, rising to $79.6 million in FY16.

* Between January 1, 2010 and January 1, 2012, the annual franchise tax would be 1/30th of one percent of the value of the outstanding shares and surplus of a corporation or financial institution if they exceed $10.0 million.

* For tax year 2012 the rate would be 1/44th of one percent with a threshold of $10.0 million.

* For tax year 2013 the rate would be 1/58th of one percent with a threshold of $10.0 million.

* For tax year 2014 the rate would be 1/72nd of one percent with a threshold of $10.0 million.

* For tax year 2015 the rate would be 1/86th of one percent with a threshold of $10.0 million.

* For tax year beginning on or after January 01, 2016, no franchise tax would be imposed.

DOR and ITSD-DOR would need to make programming changes to the corporation income tax processing systems (COINS and CAFÉ), Corp E-file System and the Financial Institutions Tax System.

ASSUMPTION (continued)

DOR officials estimated the reduction in revenues as follows.

Year	Corporate	Financial Institution	Total
2012	$23.5 million	$1.8 million	$25.3 million
2013	$35.7 million	$2.8 million	$38.5 million
2014	$43.0 million	$3.3 million	$46.3 million
2015	$48.1 million	$3.7 million	$51.8 million
2016 and after	$73.9 million	$5.7 million	$79.6 million

DOR officials also estimated that the IT impact of this proposal would be $26,712 based on 1,008 FTE hours for the Office of Administration, Information Technology Services Division (ITSD-DOR) to make programming changes.

Oversight assumes ITSD-DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes ITSD-DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD-DOR could request funding through the appropriation process.

DOR officials also provided franchise tax collections of $87.5 million for the year ended June 30, 2010.

Oversight notes that corporate franchise tax collections vary from year to year; however, based on 2010 collections, Oversight assumes the revenue reduction for this proposal can be calculated as shown in the following chart.

ASSUMPTION (continued)

Year	Franchise Tax Rate	Franchise Tax Due	Reduction in Franchise Tax
2011	1/30 of 1%	$87,451,757	$0
2012	1/44 of 1%	$59,626,198	$27,825,559
2013	1/58 of 1%	$45,233,667	$42,218,090
2014	1/72 of 1%	$36,438,232	$51,013,525
2015	1/86 of 1%	$30,506,427	$56,495,330
2016	None	$0	$87,451,757

Since franchise taxes are paid in advance, **Oversight** assumes that the 2012 reduction would be incurred in FY 2012.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
Revenue reduction - franchise tax	$0	($27,825,559)	($42,218,090)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**($27,825,559)**	**($42,218,090)**

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which are incorporated and currently subject to the franchise tax.

FISCAL DESCRIPTION

The proposed legislation would phase out the corporate franchise tax over a five-year period..

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

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