

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5086-01  
Bill No.: HB 1297  
Subject: Taxation and Revenue - Income; Business and Commerce  
Type: Original  
Date: January 20, 2014

Bill Summary: This proposal would phase out the Missouri corporate income tax by gradually reducing the tax rate over a five year period.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0	(\$79,588,000)	(\$159,176,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>(\$79,588,000)</b>	<b>(\$159,176,000)</b>

\* Fully implemented revenue reduction in FY 2020 would be (\$397,939,000)

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
<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 8 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<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>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<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>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### Section 143.071, RSMo. Corporate Income Tax Elimination:

Changes to this statute section would phase out the Missouri corporate income tax over five years, beginning January 1, 2015.

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 Secretary of State's Office 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 **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted this proposal would phase out the corporate income tax over five years.

This proposal would impact the calculation under Article X, Section 18(e).

Based on FY 2013 net corporate income tax collections, and the proposed rates, BAP officials estimated the reduction to Total State Revenues by tax year.

ASSUMPTION (continued)

	Rate	Collections (\$M)	Loss
FY 2013	6.25	360.8	
Tax Year 15	5.00	288.6	(72.2)
Tax Year 16	3.75	216.5	(144.3)
Tax Year 17	2.50	144.3	(216.5)
Tax Year 18	1.25	72.2	(288.6)
Tax Year 19	0.00	0	(360.8)

However, taxpayers may begin adjusting their estimated payments as early as December 2014. Therefore, BAP estimates the reduction to general and total state revenues by fiscal year as below (\$ Millions):

Fiscal Year 15	(21.7)
Fiscal Year 16	(93.8)
Fiscal Year 17	(166.0)
Fiscal Year 18	(238.1)
Fiscal Year 19	(310.3)
Fiscal Year 20	(360.8)

Officials from the **Department of Revenue (DOR)** assume this proposal would reduce the current corporate income tax rate in increments of 1¼ percent from the current 6¼ percent, to zero for years beginning after 2019. This would reduce Total State Revenue by an estimated \$361.4 million when the reduction is fully phased in.

Fiscal impact

DOR officials assume the corporate income tax rate would decrease each year until the rate is reduced to zero percent in 2019. In 2011, 18,155 corporate taxpayers reported total taxable income of \$5.78 billion. Based on this amount, DOR officials estimate a reduction of corporate income tax revenues as follows:

ASSUMPTION (continued)

<u>Tax Year</u>	<u>Rate</u>	<u>Reduction</u>
2015	5.00 %	\$72.3 million
2016	3.75 %	\$144.6 million
2017	2.50 %	\$216.8 million
2018	1.25 %	\$289.1 million
2019	0.00 %	\$361.4 million

Administrative impact

DOR officials assume Corporate Tax would be required to prepare form changes and provide ITSD programming support. DOR officials assume Corporate Tax would require two additional Revenue Processing Technicians I for error correction and correspondence, and each technician would require CARES equipment and licenses.

The DOR response included two additional employees; with related equipment and expense, the DOR estimate totaled \$80,794 for FY 2015, \$82,710 for FY 2016, and \$83,570 for FY 2017.

**Oversight** notes this proposal would reduce the current corporate income tax rate to zero over a period of five years. The proposal would not make any other changes to the Missouri corporate income tax program. Oversight assumes a rate change would not require significant administrative effort, and also assumes substantially all corporate income tax returns would be prepared by corporate officers or tax professionals. Accordingly, Oversight assumes a rate change would not likely result in a significant increase in inquiries, corrections to tax returns, or correspondence.

Oversight assumes this proposal could be implemented with existing DOR staff; if unanticipated additional costs are incurred or if multiple proposals are implemented that require additional DOR staffing, resources could be requested through the budget process. Oversight also assumes existing Corporate Tax resources would be required until at least 2020 when the corporate income tax would no longer exist.

IT impact

DOR officials assume IT support would be required each year for the duration of the program and provided an estimate of \$9,173 for FY 2015 based on 336 hours of programming to make changes to DOR systems.

ASSUMPTION (continued)

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

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** assume this proposal would, if enacted, reduce the corporate income tax rate over the next five years. More specifically, for 2015, the corporate income tax rate would be reduced to 5% from the current 6.25%. The rate would be gradually reduced, dropping to 3.75% for 2016, 2.5% for 2017, 1.25% for 2018, and 0% for 2019. EPARC officials noted the latest 2011 corporate income tax data indicates an aggregate liability of \$397.939 million and prepared a simulation of the impact of this proposal.

**Oversight** prepared the following table summarizing the EPARC simulations for this proposal.

Calendar Year	Fiscal Year	Corporate Tax Rate	Corporate Tax Revenue (\$ Millions)	Revenue Reduction (\$ Millions)
Baseline		6.25%	\$397.939	\$0.000
2015	2016	5.00%	\$318.351	\$79.588
2016	2017	3.75%	\$238.763	\$159.176
2017	2018	2.50%	\$159.176	\$238.763
2018	2019	1.25%	\$79.588	\$318.351
2019	2020	0.00%	\$0.000	\$397.939

**Oversight** will use the EPARC estimate of revenue reduction for fiscal note purposes. Oversight is aware that filers may choose to reduce their estimated tax payments in anticipation of reduced tax rates, and assumes this could reduce revenues a year in advance of the fiscal year indicated in the table. For fiscal note purposes, however, Oversight will indicate the full fiscal impact of the tax changes beginning when income tax returns are filed for 2015 in January 2016 (FY 2016).

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction - DOR</u>			
Corporate income tax rate change Section 143.071	<u>\$0</u>	<u>(\$79,588,000)</u>	<u>(\$159,176,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *</b>	<b><u>\$0</u></b>	<b><u>(\$79,588,000)</u></b>	<b><u>(\$159,176,000)</u></b>

\* Fully implemented revenue reduction in FY 2020 would be (\$397,939,000)

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would reduce taxes for small businesses which are incorporated.

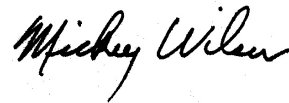
FISCAL DESCRIPTION

This proposal would phase out the Missouri corporate income tax over five years, beginning January 1, 2015. The rate would be reduced to 5% for 2015, to 3.75% for 2016, to 2.5% for 2017, and to 1.25% for 2018. The proposal would be fully implemented by 2019 when no tax would be imposed on corporate income.

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  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Department of Revenue



Mickey Wilson, CPA  
Director  
January 20, 2014

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Assistant Director  
January 20, 2014