

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5722-03
Bill No.: CCS for SB 884
Subject: Taxation and Revenue - Sales and Use; Licenses - Miscellaneous
Type: Original
Date: May 18, 2018

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	Unknown to (Unknown)	\$4,900,000 to (\$4,400,000)	\$9,700,000 to (\$8,800,000)
Total Estimated Net Effect on General Revenue	Unknown to (Unknown)	\$4,900,000 to (\$4,400,000)	\$9,700,000 to (\$8,800,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§32.200, §143.451-§143.471 Corporate Allocation

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this section creates a single-sales factor corporate income allocation method. Sections 32.200, 143.451, 143.461, 143.471, and 620.1350 disallow other corporate income allocation methods beginning in tax year 2020.

Based on information provided by DOR, moving to a single-sales factor only allocation method would increase Total State Revenue and General Revenue by \$141.6M once fully implemented, at the current corporate tax rate of 6.25%. However, Section 143.071 would reduce the corporate tax rate to 4% in tax year 2020. Therefore, factoring in the lower corporate tax rate, B&P estimates that this provision will increase Total State Revenue and General Revenue by \$45.3 million in FY 2020 and \$90.6 million once fully implemented.

Officials at the **Department of Revenue (DOR)** assume these proposed sections would remove Corporate Method One - Multistate Allocation and Three Factor Apportionment and Method Two - Business Transaction Single Factor Apportionment to be replaced by the Optional Single Sales Factor Apportionment. The Department estimates that this could potentially increase state revenues by an estimated range of \$104.1 million - \$117.5 million when fully implemented.

§143.011 Income Tax Rate

Officials at the **B&P** assume this section clarifies that the individual income tax will not be eliminated on incomes above \$9,000 once the top income tax rate reaches 5.5%. This proposal also defines the term "net general revenue collected". B&P estimates that this section will not impact Total State Revenue or the calculation under Article X, Section 18(e).

§143.071 Corporate Tax Rate

Officials at the **B&P** assume this section would reduce the corporate tax rate from the current 6.25% to 4% beginning with tax year 2020. Based on FY 2017 net corporate collections of \$276.2 million, B&P estimates that this provision will reduce Total State Revenue and General Revenue by \$49.7 million in FY 2020. Once fully implemented, this provision will reduce Total State Revenue and General Revenue by \$99.4 million annually.

Officials at the **DOR** assume this proposed section changes the tax imposed upon the Missouri taxable income of corporations in an amount equal to 4% of Missouri taxable income. The Department estimates that this could potentially decrease state revenue by an estimated \$107.8 million each year.

ASSUMPTION (continued)

§143.431 Consolidated Income Tax Return

Officials at the **B&P** assume this section states that all transactions between affiliated members shall be eliminated on the Missouri consolidated income tax return. B&P notes that under this provision some corporations filing a consolidated return may have a positive impact on their tax liability, while others may have a negative impact to their tax liability. B&P is unable to determine which impacts, in the aggregate, would be greater. Therefore, due to these data limitations, B&P cannot estimate an exact impact from this section. However, this provision may have an unknown impact on Total State Revenue and General Revenue.

§144.087 Retail Sales Licences

Officials at the **DOR** assume that current law requires the Department to require all applicants for a retail sales license and all current licensees in default in filing a return and paying taxes due to file a bond with the Director. This proposed law allows, rather than requires, the Director to request such a bond. It also removes the ability of the Director to request such a bond from a retail sales license applicant. The Department believes this will not have a fiscal impact.

Bill as a Whole

In response to the previous version, officials at the **University of Missouri's Economic and Policy Analysis Research Center** stated they are unable to provide a fiscal impact to this proposal.

B&P Summary

B&P estimates that this proposal will decrease Total State Revenue and General Revenue by \$4.4 million in FY 2020. Once fully implemented, in FY 2021, this proposal will decrease Total State Revenue and General Revenue by \$8.8 million.

Provision	FY20	FY21
Corporate Rate Reduction	(\$49.7)	(\$99.4)
Single-Sales Factor	\$45.3	\$90.6
GR and TSR Impact	(\$4.4)	(\$8.8)

in millions

FISCAL DESCRIPTION

The proposed legislation makes changes to taxation.

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
University of Missouri's Economic and Policy Analysis Research Center

Ross Strope



Acting Director
May 18, 2018