

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0285-01
Bill No.: SB 18
Subject: Corporations; Taxation and Revenue - General
Type: Original
Date: January 24, 2011

Bill Summary: Would cap corporate franchise taxes at two million dollars.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$0	(\$1,179,688)	(\$1,179,688)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$1,179,688)	(\$1,179,688)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> 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 **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume that if enacted, this proposal would limit the amount of corporate franchise tax any corporation must pay to no more than two million dollars annually for all tax years beginning after January 1, 2011. EPARC officials estimated 2010 franchise taxes, based on 2008 corporate tax data, at \$76,703,328. By limiting the amount of corporate franchise tax to two million dollars annually, total franchise tax would be \$75,523,640, a reduction of \$1,179,688.

Officials from the **Department of Revenue** (DOR) assume this proposal would limit the amount of franchise tax that may be assessed to large corporations. Based on calendar year 2009 franchise tax collections, this would reduce Total State Revenues by more than \$1 million per year. DOR officials said that a limited number of large corporations currently pay more than \$2 million per year in franchise tax, and that the revenue reduction would have been approximately \$1.4 million based on FY 2009 collections.

DOR officials stated that the Department and the Office of Administration, Information Technology Services Division (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. DOR officials estimated the IT portion of the fiscal impact at \$17,808, based on 672 FTE hours.

Oversight assumes that ITSD-DOR is provided with core funding to handle a certain amount of activity each year, and 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.

Oversight will use the EPARC estimate of impact for fiscal note purposes. Oversight assumes this proposal would have a fiscal impact on the General Revenue Fund beginning in FY 2012 since corporations with tax years beginning in January, 2011 would file tax returns in FY 2012 for those tax years.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
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GENERAL REVENUE FUND

<u>Revenue reduction</u> - corporate franchise tax	\$0	(\$1,179,688)	(\$1,179,688)
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$1,179,688)</u>	<u>(\$1,179,688)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to any small business which had a franchise tax liability greater than \$2 million per year.

FISCAL DESCRIPTION

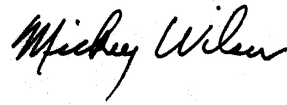
The proposed legislation would limit a corporation's annual franchise tax liability to two million dollars.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

L.R. No. 0285-01
Bill No. SB 18
Page 5 of 5
January 24, 2011

SOURCES OF INFORMATION

Department of Revenue
University of Missouri - Economic and Policy Analysis Research Center

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

Mickey Wilson, CPA
Director
January 24, 2011