

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0586S.01I  
Bill No.: SB 393  
Subject: Taxation and Revenue - Income  
Type: Original  
Date: March 31, 2021

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Bill Summary: This proposal would eliminate the Corporate Income Tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
General Revenue Fund	(\$55,696,435)	(\$167,304,666)	(\$223,216,462)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$55,696,435)</b>	<b>(\$167,304,666)</b>	<b>(\$223,216,462)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<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.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
<b>Local Government</b>	<b>\$0</b>	<b>(\$10,552,664)</b>	<b>(\$21,105,327)</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation will reduce Total State Revenue (TSR) by \$223,216,462 once fully implemented.

B&P states this section will impact the calculation under Article X, Section 18(e).

### **Section 143.071 – Corporate Income Tax**

Officials from **B&P** state this proposed legislation would reduce the Corporate Income Tax rate to 2% for Tax Year 2022 and eliminate the Corporate Income Tax beginning with Tax Year 2023.

In Fiscal Year 2019, net corporate tax collections were \$348,102,720 at a tax rate of 6.25%. B&P is refraining from using Fiscal Year 2020 collections due to the delayed due dates that shifted a substantial amount of payments into Fiscal Year 2021.

B&P notes that the corporate tax rate was reduced to 4.0% on January 1, 2020. B&P estimates that the state would have collected \$222,785,741 in net corporate payments during Fiscal Year 2019 had the tax rate been 4.0% rather than 6.25%.

B&P estimates that reducing the Corporate Income Tax rate to 2.0% could reduce General Revenue (GR) by \$111,392,870 in Tax Year 2022. Eliminating the Corporate Income Tax could reduce GR by \$222,785,741 beginning with Tax Year 2023. However, because this proposed legislation would take effect January 1, corporations would adjust their declarations payments during Fiscal Year 2022 and Fiscal Year 2023. Table 1 shows the estimate impact on GR by fiscal year.

Table 1: Impact to GR from Corporate Rate Reduction

	FY22	FY23	FY24
GR Loss	(\$55,696,435)	(\$167,089,306)	(\$222,785,741)

### **Bank Franchise Tax**

B&P notes that, under Section 148.720, the Bank Franchise Taxes (Section(s) 148.030, 148.140, and 148.620) shall be reduced by a proportional amount to any reduction in the Corporate Income Tax. Such reduction shall occur in the calendar year in which the Corporate Income Tax rate is reduced.

Therefore, because this proposed legislation would reduce the Corporate Income Tax rate by 50% in Tax Year 2022, this proposed legislation will, in turn, reduce the Bank Franchise Taxes by 50% for Tax Year 2022. Beginning with Tax Year 2023, the Bank Franchise Tax rate would be eliminated when the Corporate Income Tax rate is reduced by 100% in Tax Year 2023. B&P notes that the current Bank Franchise Tax rate is 4.48% as of January 1, 2020.

In Fiscal Year 2020, Bank Franchise Tax collections were \$33,650,075 at a tax rate of 7.0%. B&P notes that the Bank Franchise Tax rate was reduced to 4.48% on January 1, 2020. B&P estimates that the state would have collected \$21,536,048 in Fiscal Year 2020 had the tax rate been 4.48% rather than 7.0%.

B&P notes that the Bank Franchise Tax is distributed to GR (2%) and local funds (98%) on an annual basis and that tax payments for tax year 1 are distributed in fiscal year 2. For example: tax payments for 2022 will be collected and distributed during Fiscal Year 2023. Table 2 shows the estimated impact on state and local funds by fiscal year.

Table 2: State and Local Impact from Brank Franchise  
Tax Reduction

Funds impact	FY22	FY23	FY24
GR (2%)	\$0	(\$215,360)	(\$430,721)
Local (98%)	\$0	(\$10,552,664)	(\$21,105,327)

### Summary

B&P estimates that this proposed legislation will reduce TSR and GR by \$55,696,435 in Fiscal Year 2022. Once fully implemented in Fiscal Year 2024, this proposed legislation will reduce TSR and GR by \$223,216,462 annually. This proposed legislation will also reduce local funds by \$21,105,327 annually once fully implemented. Table 3 shows the impacts by state and local fund by fiscal year.

Table 3: State and Local Impact from Corporate Rate Reduction

	FY22	FY23	FY24
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$55,696,435)	(\$167,089,306)	(\$222,785,741)
Bank Franchise Tax Rate Reduction	\$0	(\$215,360)	(\$430,721)
Total GR Loss	(\$55,696,435)	(\$167,304,666)	(\$223,216,462)
<u>Local Impact</u>			
Bank Franchise Tax Rate Reduction	\$0	(\$10,552,664)	(\$21,105,327)

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation would eliminate the Corporate Income Tax rate as of December 31, 2022. In Fiscal Year 2019, the Corporate Income Tax rate was 6.25% and net collections were \$348,102,720. Starting January 1, 2020 the Corporate Income Tax rate changed to 4.00%. Per this proposed legislation, starting January 1, 2022 and ending December 31, 2022 the tax on corporations would be reduced to 2%. For each year after January 1, 2023 there would be no tax imposed upon the Missouri taxable income of corporations.

Per current statute, the Bank Franchise Tax rate is decreased in the same proportion as the Corporate Income Tax rate. With the elimination of the Corporate Income Tax rate, this would in turn eliminate the Bank Franchise Tax rate. The Bank Franchise Tax is distributed 2% to GR and 98% to local political subdivisions.

In Fiscal Year 2019, net Corporate Income Tax collections was \$348,102,720 at the 6.25% rate. Using this information and projecting forward, DOR was able to calculate using the new 2% rate established for Calendar Year 2022. DOR expects to collect \$222,785,741. This would result in a loss to GR of \$111,392,870 in Fiscal Year 2022 and a loss of \$222,785,741 beginning in Fiscal Year 2023 and in all future years.

Table 1: Estimated Impact by  
Tax Year

Tax Year	GR Loss
2022	(\$111,392,870)
2023	(\$222,785,741)

DOR uses a 50%/50% split of the Corporate Income Tax to convert from calendar to fiscal year.

Table 2: Estimated Impact by  
Fiscal Year

Tax Year	GR Loss
2022	(\$55,696,435)
2023	(\$167,089,306)
2024	(\$222,785,741)

With the elimination of the Corporate Income Tax rate, the Bank Franchise Tax rate would also decrease. The current estimated amount of the Bank Franchise Tax collections is \$21,536,048 at a tax rate of 4.48% for Fiscal Year 2020. This is expected to be a loss to GR of \$430,721 starting in Fiscal Year 2024.

Table 3: State and Local Impact from Bank Franchise Tax Reduction

Funds impact	FY22	FY23	FY24
GR 2%	\$0	(\$215,360)	(\$430,721)
Local 98%	\$0	(\$10,552,664)	(\$21,105,327)

**Oversight** notes DOR's estimate above uses Tax Year 2019 data in which the Bank Franchise Tax Rate was 7%, which was paid in Fiscal Year 2020. DOR extrapolated the Tax Year 2019 data to estimate what the collections would have been during Fiscal Year 2020 had the Bank Franchise Tax rate been equal to 4.48% (as it is for Tax Year 2020).

**DOR** provides the estimated total impact from this proposed legislation:

Table 4: State and Local Impact from Corporate Rate Reduction

	FY22	FY23	FY24
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$55,696,435)	(\$167,089,306)	(\$222,785,741)
Bank Franchise Tax Rate Reduction	\$0	(\$215,360)	(\$430,721)
Total GR Loss	(\$55,696,435)	(\$167,304,666)	(\$223,216,462)
<u>Local Impact</u>			
Bank Franchise Tax Rate Reduction	\$0	(\$10,552,664)	(\$21,105,327)

DOR anticipates the changes made to the Corporate Income Tax and the Bank Franchise Tax will require forms and programming changes at a cost of \$2,000.

**Oversight** assumes DOR's anticipated cost of \$2,000 for forms and programming changes to be minimal, and not material enough to report in this fiscal note. Therefore, for purposes of this fiscal note, Oversight assumes DOR can absorb the cost(s) associated with forms and programming changes, as it relates to this proposed legislation, with existing resources.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** assumes this proposed legislation would reduce the Corporate Income Tax rate to 2% in 2022 to "no tax imposed" in 2023.

EPARC estimates the proposed legislation will reduce Net General Revenue by \$63,370,204 in Fiscal Year 2022, \$194,679,740 in Fiscal Year 2023, \$266,274,374 in Fiscal Year 2024 and \$273,584,977 in Fiscal Year 2025.

**Oversight** notes, the [Missouri Department of Revenue's Annual Report](#) (Annual Report) provides **gross** tax collections. In addition, the Annual Report(s) combine gross collections for both Corporate Income Tax and Bank Franchise Tax (combined Corporate Income Tax and Franchise Tax collections in FY 2019 is listed as \$526,556,080).

**Oversight** notes the [Missouri House of Representative's Budget Fast Facts](#) provide gross tax collections and the amount of refunds recognized. This would allow for an estimated net collections. However, the Missouri House of Representative's Budget Fast Facts combine gross collections and refunds for both Corporate Income Tax and Bank Franchise Tax.

Therefore, and in conjunction with the fact that **Oversight does not currently have the resources and/or access to state tax data**, Oversight is unable to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

For purposes of this fiscal note, **Oversight** will report the revenue reduction(s) to GR and Local Political Subdivisions equal to the amount(s) estimated by B&P and DOR.

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
<b>GENERAL REVENUE FUND</b>			
<u>Revenue Reduction –</u> Section 143.071 – Reduction/Elimination Of Corporate Income Tax p. 5 & 6	(\$55,696,435)	(\$167,089,306)	(\$222,785,741)
<u>Revenue Reduction –</u> Section(s) 143.071 (This Proposed Legislation) & 148.720 (Corresponding With Changes Made To Section 143.071) – Reduction/Elimination Of Bank Franchise Tax P. 5 & 6	\$0	(\$215,360)	(\$430,721)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$55,696,435)</u></b>	<b><u>(\$167,304,666)</u></b>	<b><u>(\$223,216,462)</u></b>



<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Revenue Reduction – Section(s) 143.071 (This Proposed Legislation) &amp; 148.720 (Corresponding With Changes Made To Section 143.071) – Reduction/Elimination Of Bank Franchise Tax p. 5 &amp; 6</u>	<u>\$0</u>	<u>(\$10,552,664)</u>	<u>(\$21,105,327)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b><u>(\$10,552,664)</u></b>	<b><u>(\$21,105,327)</u></b>

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that is obligated to pay Corporate Income Tax or Bank Franchise Tax as such small business would pay a reduced amount of such tax(es) for Tax Year 2022 and would not pay any such tax(es) each year thereafter.

FISCAL DESCRIPTION

This act phases out the corporate income tax over a period of two years. For the tax year beginning on or after January 1, 2022, and ending on or before December 31, 2022, the rate of tax on corporate income shall be reduced from 4% to 2%. For all tax years beginning on or after January 1, 2023, there shall be no tax 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.

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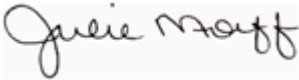
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SOURCES OF INFORMATION

Office of Administration – Budget & Planning

Missouri Department of Revenue

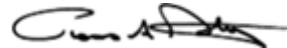
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