

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3876S.01I  
Bill No.: SB 701  
Subject: Corporations; Taxation and Revenue - Income  
Type: Original  
Date: January 19, 2022

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Bill Summary: This proposal eliminates the corporate income tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
General Revenue Fund	(\$280,029,883)	(\$560,829,302)	(\$560,826,434)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$280,029,883)</b>	<b>(\$560,829,302)</b>	<b>(\$560,826,434)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
<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>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
FTE Changes DOR	-4 FTE	-4 FTE	-4 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>- 4 FTE</b>	<b>- 4 FTE</b>	<b>- 4 FTE</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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
<b>Local Government</b>	<b>\$0</b>	<b>(\$37,845,089)</b>	<b>(\$37,845,089)</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of Administration – Budget & Planning Division (B&P)** note this proposal will impact the calculation under Article X, Section 18(e).

B&P states this proposal would eliminate the corporate income tax beginning with tax year 2023. B&P notes that the corporate tax rate was reduced to 4.0% on January 1, 2020.

In FY21, accounting for the delayed income tax payments, net corporate tax collections were \$560,259,566 at a tax rate of 4.0%.

B&P estimates that eliminating the corporate income tax could reduce GR by \$560,259,566 beginning with tax year 2023. However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY23. Based on historic remittance patterns, B&P notes that corporate income tax collections are split 50/50 between fiscal years. Table 1 shows the estimate impact on general revenue by fiscal year.

Table 1: Impact to GR from Corporate Rate Reduction

	FY23	FY24	FY25
GR Loss	(\$280,129,783)	(\$560,259,566)	(\$560,259,566)

### **Financial Institutions Tax**

B&P notes that under Section 148.720, RSMo, the financial institutions tax (formerly known as the bank franchise taxes) (Sections 148.030, 148.140, and 148.620, RSMo.) 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 tax rate is reduced.

Therefore, beginning with tax year 2023, the financial institutions tax rate would be eliminated when the corporate 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 FY21, financial institutions tax collections were \$38,617,438 at a tax rate of 4.48%.

B&P notes that the financial institutions 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 FY2. For example: tax payments for 2023 will be collected and distributed during FY24. Table 2 shows the estimated impact on state and local funds by fiscal year.

ASSUMPTION (continued)

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

Funds impact	FY23	FY24	FY25
GR (2%)	\$0	(\$772,349)	(\$772,349)
Local (98%)	\$0	(\$37,845,089)	(\$37,845,089)

Summary

B&P estimates that this proposal will reduce TSR and GR by \$280,129,783 in FY23. Once fully implemented in FY24, this proposal will annually reduce TSR and GR by \$561,031,915. This proposal will also reduce local funds by \$37,845,089 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

	FY23	FY24	FY25
<u>State Impact</u>			
Corporate Tax Rate Reduction		(\$280,129,783)	(\$560,259,566)
Bank Franchise Tax Rate Reduction	\$0	(\$772,349)	(\$772,349)
Total GR Loss		(\$280,129,783)	(\$561,031,915)
<u>Local Impact</u>			
Bank Franchise Tax Rate Reduction	\$0	(\$37,845,089)	(\$37,845,089)

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation would eliminate the Missouri corporate income tax for all tax years beginning on or after January 1, 2023. The corporate rate is currently 4%. FY 2021 net collections were \$560,529,566. Since this proposal is effective January 1, 2023 it is assumed only 6 months of collections will be impacted in FY 2023.

	Loss to GR
FY 2023	(\$280,129,783)
FY 2024	(\$560,259,566)
FY 2025	(\$560,259,566)

Per Section 148.720, whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. This proposal would be a 100% reduction in the corporate tax so the financial institutions tax would also have a 100% decrease. The

financial institutions tax is currently 4.48% with 98% of it distributed to locals and 2% retained by general revenue. Per Section 148.720 the reduction in the financial institutions tax is reduced in the following year. The loss is estimated to be:

ASSUMPTION (continued)

	Loss to GR	Loss to Locals
FY 2023	0.00	0.00
FY 2024	(772,349)	(37,845,089)
FY 2025	(772,349)	(37,845,089)

Therefore the impact from the elimination of the corporate and financial institutions tax rate is estimated to be:

Total Loss from Corporate and FIT

Loss To	GR	Locals
FY 2023	(280,129,783.00)	0.00
FY 2024	(561,031,915.00)	(37,845,089.00)
FY 2025	(561,031,915.00)	(37,845,089.00)

This proposal will no longer require the DOR to maintain its 4 FTE that handle the correspondence and manual review of the corporate or financial institutions tax returns. While this proposal eliminates the tax rate for the corporate and financial institutions, it does not remove their requirement to file a return so the Department's processing staff will still be necessary to handle the entry of the returns.

**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.

Officials from the **Department of Commerce and Insurance (DCI)** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

**Oversight** assumes there may be some administrative savings to DCI if the financial institutions tax is eliminated. Oversight will continue to research this possibility with DCI.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
<b>GENERAL REVENUE FUND</b>			
Revenue Loss - §143.071 Elimination of corporate income tax	(\$280,129,783)	(\$560,259,566)	(\$560,259,566)
Revenue Loss - §148.720 Decrease of financial institutions tax	\$0	(\$772,349)	(\$772,349)
<b>Savings - DOR</b>			
Personal Service	\$52,656	\$107,418	\$109,567
Fringe Benefits	\$47,244	\$95,195	\$95,915
Total Savings - DOR	\$99,900	\$202,613	\$205,481
FTE Changes DOR	-4 FTE	-4 FTE	-4 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<u>(\$280,029,883)</u>	<u>(\$560,829,302)</u>	<u>(\$560,826,434)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
Revenue Loss - §148.720 Decrease of financial institutions tax	\$0	(\$37,845,089)	(\$37,845,089)
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<u>\$0</u>	<u>(\$37,845,089)</u>	<u>(\$37,845,089)</u>

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 2023 and would not pay any such tax(es) each year thereafter.

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#### FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2023, this act provides that there shall be no tax on corporate income.

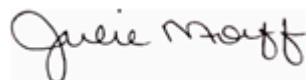
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

Department of Revenue

Office of Administration - Budget and Planning

Department of Commerce and Insurance



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Ross Strope

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January 19, 2022