

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4090S.01I
 Bill No.: SB 1029
 Subject: Corporations; Taxation and Revenue - Income
 Type: Original
 Date: February 2, 2024

Bill Summary: This proposal phases out the corporate income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2030)
General Revenue	(\$79,595,241)	(\$256,603,985)	(\$433,612,727)	Less than (\$885,040,818)*
Total Estimated Net Effect on General Revenue	(\$79,595,241)	(\$256,603,985)	(\$433,612,727)	Less than (\$885,040,818)*

***Oversight** notes the fiscal impact estimated by B&P is based on net corporate income tax collections, therefore this estimate already includes the potential that corporate tax credits would no longer be redeemed upon full phase out of the corporate income tax, beginning in tax year 2029 (FY2030).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2030)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2030)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2030)
Total Estimated Net Effect on FTE	0	0	0	\$0

- 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 2025	FY 2026	FY 2027	Fully Implemented (FY 2030)
Local Government*	\$0	(\$6,391,051)	(\$12,782,102)	(\$31,813,232)

*Oversight notes 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. Oversight further 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.

FISCAL ANALYSIS

ASSUMPTION

Section 143.071 – Corporate Income Tax Reduction

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal will reduce the corporate income by 0.8% each year, starting with tax year 2025. Beginning with tax year 2029, there shall no longer be a tax on corporate income.

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. Table 1 shows the proposed tax rates for corporations and the corresponding reduced financial institution tax rates.

Table 1: Proposed Corporate Tax Rate

Tax Year	Corporate Rate	Franchise Tax Rate
Current	4.00%	4.48%
2025	3.20%	3.58%
2026	2.40%	2.68%
2027	1.60%	1.79%
2028	0.80%	0.89%
2029	0.00%	0.00%

Corporate Income Tax

In FY23, net corporate tax collections were \$884,391,568 at a tax rate of 4.0%.

B&P estimates that reducing the corporate income tax could reduce GR by \$176,878,314 beginning with tax year 2025. Once fully implemented, B&P estimates this provision could reduce GR by \$884,391,568 annually. Table 2 shows the estimated impact by tax year.

Table 2: Est. Corp Impact by Tax Year

Tax Year	GR Impact
2025	(\$176,878,314)
2026	(\$353,756,627)
2027	(\$530,634,941)
2028	(\$707,513,255)
2029	(\$884,391,568)

However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY25. Based on actual collections, B&P estimates that corporate tax collections are received 45% in FY1 and 55% in FY2. Therefore, B&P will reflect the potential loss with the same 45/55 split. Table 3 shows the estimate impact on general revenue by fiscal year.

Table 3: Est. Corp Impact
by Fiscal Year

Fiscal Year	GR Impact
FY25	(\$79,595,241)
FY26	(\$256,473,555)
FY27	(\$433,351,868)
FY28	(\$610,230,182)
FY29	(\$787,108,496)
FY30	(\$884,391,568)

Financial Institution Tax

B&P notes that the financial institution tax is paid annually in the fiscal year following the end of a calendar year. In FY23, financial institutions tax collections were \$32,462,482 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 2025 will be collected and distributed during FY26. Table 4 shows the estimated impact on state and local funds by fiscal year.

Table 4: State and Local Impact
from Brank Franchise Tax
Reduction

Tax Year	GR (2%)	Local (98%)
FY25	\$0	\$0
FY26	(\$130,430)	(\$6,391,051)
FY27	(\$260,859)	(\$12,782,102)
FY28	(\$389,840)	(\$19,102,142)
FY29	(\$520,269)	(\$25,493,193)
FY30	(\$649,250)	(\$31,813,232)

Bill Summary

B&P estimates that this proposal could reduce TSR and GR by \$24,873,513 in FY25. Once fully implemented, this proposal could reduce TSR and GR by \$387,205,358 annually. In addition, this proposal could reduce local revenues by \$13,918,289 annually once fully implemented.

Table 5: State and Local Impact from Corporate Rate Reduction

	<u>FY25</u>	<u>FY26</u>	<u>FY27</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$79,595,241)	(\$256,473,555)	(\$433,351,868)
Financial Institutions Tax Rate Reduction	\$0	(\$130,430)	(\$260,859)
Total GR Loss	(\$79,595,241)	(\$256,603,985)	(\$433,612,727)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	\$0	(\$6,391,051)	(\$12,782,102)

Table 4: State and Local Impact from Corporate Rate Reduction (cont.)

	<u>FY28</u>	<u>FY29</u>	<u>FY30</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$610,230,182)	(\$787,108,496)	(\$884,391,568)
Financial Institutions Tax Rate Reduction	(\$389,840)	(\$520,269)	(\$649,250)
Total GR Loss	(\$610,620,022)	(\$787,628,765)	(\$885,040,818)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	(\$19,102,142)	(\$25,493,193)	(\$31,813,232)

Officials from the **Department of Revenue (DOR)** note starting January 1, 2025, this proposal will reduce the corporate tax rate 0.8% a year for the next several years until the rate becomes zero. The current corporate tax rate is 4%. Therefore, starting January 1, 2029, there will be no tax on the Missouri taxable income of corporations. FY 2023 net collections were \$884.3 million. Since this proposal is effective January 1, 2025, it is assumed only 6 months of collections will be impacted in FY 2025.

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 will eventually 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. In FY 2023, DOR collected \$32,462,482 in net tax. Per Section

148.720 the reduction in the financial institutions tax is reduced in the following year. The tax rates are expected to be:

Tax Year	Corporate Rate	Financial Institutions Rate
2024 current	4.0%	4.48%
2025	3.2%	3.58%
2026	2.4%	2.68%
2027	1.6%	1.79%
2028	0.8%	0.9%
2029	0%	0%
2030	0%	0%

The Department used its internal Income Tax Model that contains confidential taxpayer data from the 2021 tax year (the most recent complete tax year data) to calculate the fiscal impact.

State and Local Impact from Corporate Rate Reduction

	<u>FY25</u>	<u>FY26</u>	<u>FY27</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$79,595,241)	(\$256,473,555)	(\$433,351,868)
Financial Institutions Tax Rate Reduction	\$0	(\$130,430)	(\$260,859)
Total GR Loss	(\$79,595,241)	(\$256,603,985)	(\$433,612,727)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	\$0	(\$6,391,051)	(\$12,782,102)

State and Local Impact from Corporate Rate Reduction (cont.)

	<u>FY28</u>	<u>FY29</u>	<u>FY30</u>
<u>State Impact</u>			
Corporate Tax Rate Reduction	(\$681,865,899)	(\$874,663,261)	(\$884,391,568)
Financial Institutions Tax Rate Reduction	(\$389,840)	(\$636,207)	(\$649,250)
Total GR Loss	(\$682,255,739)	(\$875,299,468)	(\$885,040,818)
<u>Local Impact</u>			
Financial Institutions Tax Rate Reduction	(\$19,102,142)	(\$31,174,127)	(\$31,813,232)

This proposal will require the Department to change the department's forms, computer programs and website. These changes are estimated at \$8,932.

Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this

proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

According to DOR reports, **Oversight** notes the following collections in corporate income tax:

<u>Fiscal Year</u>	<u>Corporate Income Tax</u>
FY 2023 (as reported above)	\$884,391,568
FY 2022	\$711,062,676
FY 2021	\$798,110,636

Oversight will utilize B&P’s estimated impact for this proposal.

Oversight notes the fiscal impact estimated by B&P is based on net corporate income tax collections, therefore this estimate already includes the potential that corporate tax credits would no longer be redeemed.

Oversight will also reflect a savings to the Department of Revenue for administration of the corporate income tax. Oversight assumes DOR will have savings related to processing of the returns, processing of the tax credits, and the conducting of audits. The corporate income tax is eliminated beginning January 1, 2029; however, Oversight assumes it will take some time to wrap up all corporate tax matters.

Officials from the **Department of Commerce and Insurance** 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 for this agency in the fiscal note.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2030)
GENERAL REVENUE FUND				
<u>Savings</u> - DOR – no longer administering the corporate income tax starting tax year 2029	\$0	\$0	\$0	Unknown
<u>Revenue Loss</u> - §143.071 - Corporate Income Tax Rate Reduction	(\$79,595,241)	(\$256,473,555)	(\$433,351,868)	(\$884,391,568)*

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2030)
Revenue Loss - §143.071 - Financial Institutions Tax Rate Reduction	\$0	(\$130,430)	(\$260,859)	(\$649,250)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$79,595,241)	(\$256,603,985)	(\$433,612,727)	<u>Less than</u> (\$885,040,818)*

***Oversight** notes the fiscal impact estimated by B&P is based on net corporate income tax collections, therefore this estimate already includes the potential that corporate tax credits would no longer be redeemed.

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2030)
LOCAL POLITICAL SUBDIVISIONS				
Revenue Loss - §143.071 - Financial Institutions Tax Rate Reduction	\$0	(\$6,391,051)	(\$12,782,102)	(\$31,813,232)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	(\$6,391,051)	(\$12,782,102)	(\$31,813,232)

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that is obligated to pay corporate income tax and/or financial institutions tax, as such small business would pay a reduced amount of such tax(es), and eventually no corporate income/financial institutions tax.

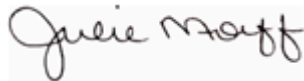
FISCAL DESCRIPTION

This act phases out the corporate income tax over a period of years beginning with the 2025 tax year. Each annual reduction in the tax rate shall be by 0.8%, and beginning with the 2029 tax year there shall be no income 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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February 2, 2024



Ross Strobe
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