

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3709S.01I
Bill No.: SB 931
Subject: Taxation and Revenue - Income; Corporations; Campaign Finance
Type: Original
Date: January 24, 2022

Bill Summary: This proposal modifies provisions relating to corporations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	(Could exceed \$250,000)	(Could exceed \$250,000)	(Could exceed \$250,000)
Total Estimated Net Effect on General Revenue	(Could exceed \$250,000)	(Could exceed \$250,000)	(Could exceed \$250,000)

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

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on FTE	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 2023	FY 2024	FY 2025
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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

Section 130.029

B&P states this section would allow limited liability companies (LLCs) and S-Corporations to make political contributions. Section 130.029.4(2) defines the term corporation for both subsection 4 and Article VIII, Section 23 of the Missouri Constitution. B&P note this provision will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue (DOR)** state this proposal allows a limited liability company to make contributions to any committee. This will not have a fiscal impact on the Department.

Section 143.081

B&P states this provision would grant a tax credit for S-Corporation shareholders for income earned outside of Missouri, if the income earned out of state is not subject to income taxes in the state in which it was earned. The tax credit shall be equal to the shareholders proportion of Missouri income tax owed on such out-of-state S-Corporation income. This credit would begin on August 28, 2022. Since this is before the end of the 2022 tax year, B&P assumes that the credit would be available for taxpayers filing their annual 2022 tax returns.

B&P notes that shareholders are already allowed a resident income tax credit if income earned out of state is subject to another state's income tax. B&P further notes that this would essentially eliminate the Missouri tax on all out of state income earned by any S-Corporation, if that income is not subject to any other state's income tax.

Based on information provided by DOR, for tax year 2018 fewer than 1% of S-Corporations claimed out-of-state income. However, B&P was unable to determine how much of such S-Corporations income was derived from out-state-sources and how much of that income came from other states that do not levy an income tax. Therefore, B&P estimates that this proposal will have an unknown negative impact on TSR and GR beginning in FY23.

DOR states this proposal would allow a resident shareholder in an S-Corp to be eligible for a credit issued pursuant to this section in an amount equal to the shareholder's pro rata share of any income tax imposed pursuant to chapter 143 on income derived from sources in another state of the United States, or a political subdivision thereof, or the District of Columbia, and which is subject to tax pursuant to chapter 143 but is not subject to tax in such other jurisdiction.

S-Corps are required to file a MO-1120S (S-Corporation Income Tax Return) with the Department of Revenue annually. One of the questions on the form requires S-Corps to disclose if any of the income they receive is from sources other than those located in Missouri. Of the 87,907 S-Corps that completed the 2018 MO-1120S form, less than 1% indicated income outside Missouri.

DOR is unable to estimate the amount of the income that was reported as out of the state. Additionally, the Department cannot determine if any of that income is from jurisdictions that do not tax. The Department assumes an unknown impact that could exceed \$250,000 annually.

Officials from the **Missouri Ethics Commission** assume the proposal will have no fiscal impact on their organization. The **Missouri Ethics Commission** notes that if a significant number of entities were to begin reporting such activity as outlined in 130.047 RSMo, additional analysts would be required to assist in providing filing assistance and review of reports filed with the commission.

Officials from the **Office of the Secretary of State** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE			
<u>Revenue Reduction - §143.081 Tax credit for S-Corporations p. 3-4</u>	<u>(Could exceed \$250,000)</u>	<u>(Could exceed \$250,000)</u>	<u>(Could exceed \$250,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(Could exceed \$250,000)</u>	<u>(Could exceed \$250,000)</u>	<u>(Could exceed \$250,000)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

This proposal would grant a tax credit for S-Corporations.

FISCAL DESCRIPTION

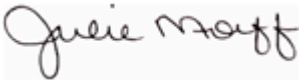
S CORP TAX CREDIT

Current law authorizes a tax credit for the amount of income tax paid to another state for income that is also taxed in this state. This act allows such tax credit to be claimed by resident shareholders of an S corporation for the amount of tax imposed by this state on income earned in another state but not taxed by such state. (Section 143.081)

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

Missouri Ethics Commission
Office of the Secretary of State
Office of Administration - Budget and Planning
Department of Revenue



Julie Morff
Director
January 24, 2022



Ross Strope
Assistant Director
January 24, 2022