The MISSOURI BUDGET PROJECT
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# Decoupling from the Federal "Bonus Depreciation" Could Save Missouri Millions

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The *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010* was signed into law by President Obama on Dec. 17, 2010. One provision of the Act allows businesses to utilize accelerated investment expensing. Businesses can make qualified investment purchases and deduct these expenses over an accelerated two-year period, as opposed to the normal more extended depreciation schedules.

As a result, Missouri and all states that use federal definitions of taxable income as the starting point for their state tax base are likely see substantial reductions in state revenues over the next two years. The Center on Budget and Policy Priorities estimates that Missouri will lose as much as $143 million in state corporate tax revenue from 2011-2012.[1] Missouri can prevent this loss by enacting a provision in its own tax code to disallow the additional state tax deduction by effectively continuing the previous depreciation schedule. Missouri companies would still benefit from the federal tax deduction while much needed state revenue would be maintained. This approach is commonly referred to as "decoupling." A similar bill was enacted in Missouri in 2002 with bipartisan support.

## Missouri's Recent History of Decoupling

A similar provision that allowed "bonus depreciation" was included in the federal *Job Creation and Worker Assistance Act of 2002*. Faced with a bleak budget outlook, Missouri and thirty other states "decoupled" from this specific provision. Missouri's bipartisan bill, Senate Bill 1248, decoupled the Missouri state tax base from the federal bonus depreciation for one year. The official state fiscal note on the bill estimated that the one year decoupling would prevent Missouri from losing $72 million in state general revenue during state fiscal year 2003. A portion of the retained revenue, $27 million, was earmarked for schools.[2]

## Revenue & Budget Impact of Bonus Depreciation in Missouri 2011-2012

Missouri's budget outlook for Fiscal Year 2012, which begins on July 1st, is already fairly bleak. In addition to the reductions made over the last three years, the Governor recently announced a proposed

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[1] Johnson and Singham, *"Business Expensing Proposal Would Add to State Fiscal Problems,"* Center on Budget & Policy Priorities, December 2010, available at: www.cbpp.org

[2] Senate Bill 1248 (2002) can be viewed by visiting the "past session archives" on the Missouri State Senate website at www.senate.mo.gov

additional $700 million in state service reductions in his Fiscal Year 2012 budget request.[3] The budget proposal is based upon meeting the state's official consensus revenue estimate (CRE). The official CRE for FY 2012 anticipates state corporate income & franchise tax collections to grow by 6.8 percent, netting $331 million in tax revenue for the FY 2012 budget.[4] However, the revenue estimate was completed *prior* to the passage of the federal Tax Relief Act of 2010 and does not adjust for the reduced corporate tax collections resulting from the bonus depreciation. As already noted, the bonus depreciation could reduce state corporate income tax revenue by $143 million during tax years 2011-2012.

As a result, if Missouri fails to decouple from the bonus depreciation provision for state tax calculation, Missouri's corporate income tax collections could be as much as one-third lower than calculated in the CRE. In other words, significant further budget reductions would be needed. The fiscal outlook combined with the 2002 precedent of decoupling on the same provision make a strong case for policy makers to again consider decoupling in the current legislative session.

## Everybody Wins

The benefits of decoupling for state tax purposes from the bonus depreciation provided in the *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010* are multiple:

- Missouri companies would continue to benefit from the federal accelerated depreciation schedule, thereby encouraging their investment in the economy; and
- The state would retain its expected revenue for FY 2012, preventing further cuts to state services that also invest in the economy; and
- Missouri companies would continue to benefit from the normal state level depreciation schedule in a manner that is fiscally affordable for the state.

Missouri's policy makers should consider some form of decoupling in the 2011 Legislative Session.

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[3] For a summary of the FY 2012 budget reductions, see the Missouri Budget Project, *"Overview of the Governor's Fiscal Year 2012 Budget Recommendations,"* January 2011. For more detail on the long-term budget forecast, see *"Missouri Revenue Still in Deep Hole"*, January 2011. Both reports are available at www.mobudget.org.

[4] Missouri Office of Administration Division of Budget & Planning, *"Missouri Executive Budget for Fiscal Year 2012, Summary,"* January 2011, available at http://oa.mo.gov/bp/budg2012/index.htm