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Governor Nixon to Sign Bill Eliminating Corporate Franchise Tax *Misguided Move as State Faces Shortfall of Hundreds of Millions*

Governor Nixon plans to sign into law this morning legislation that would eliminate the corporate franchise tax over a five year period. When fully phased in, the elimination of the tax will cost the state's general revenue fund \$85 million.

"It's extremely disappointing that the state would eliminate a source of revenue while facing a general revenue shortfall approaching \$700 million," said Amy Blouin, Executive Director of the Missouri Budget Project. "It defies common sense. Elected officials should be looking for balanced approaches to address Missouri's budget situation, not making the shortfall worse."

Despite the name, the franchise tax is not a tax on franchises. Rather, it is paid by companies who are engaged in business in Missouri and have assets valued at more than \$1 million. The corporate franchise tax is 1/30th of 1 percent (.000333) and is applied to the face value assigned to stock valued over \$10 million. Despite this low rate, the tax raises approximately **\$85 million per year, about one-fourth of corporate tax receipts.**

Moreover, despite some misconceptions, the bill does nothing to promote small business in Missouri. Because the tax is levied only on company shares exceeding \$10 million, the tax is not levied on the vast majority of Missouri's small businesses, which have become the economic engine of the state.

"There is no evidence that Missouri would benefit from the elimination of the corporate franchise tax," continued Blouin. "In fact, most of the benefit would go to shareholders of companies in other states, and the elimination of the corporate franchise tax on an already fiscally stressed state budget could harm Missouri's business environment and citizens."

While proponents argue that the elimination of the tax could help attract business, Missouri's corporate tax structure is already quite business friendly. Missouri's corporate income tax rate is already the 7th lowest in the country, according to the St. Louis Post-Dispatch. The state charges a rate of 6.25 percent of Missouri taxable income. However, Missouri is **one of only five states** that allow corporations to deduct 50 percent of federal income tax payments, making the effective **corporate income tax rate just 5.2 percent.**

In addition, Missouri is not alone in assessing some form of corporate tax in addition to the corporate income tax. Seventeen other states have additional corporate taxes, fourteen of which are franchise taxes.

To put the cost of the bill in perspective, when fully phased in, the state will lose approximately \$85 million per year. The cut to higher education proposed in the FY 2012 budget is **\$63.8 million** (\$53.6 million cut from Missouri's four-year colleges and \$10.2 million cut from Missouri's community colleges).