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Missouri House Debates Elimination of Corporate Franchise Tax *Misguided Move as State Faces Shortfall of Hundreds of Millions*

The Missouri House is currently debating HCS HB 76, a bill that would eliminate the corporate franchise tax over a four-year period from calendar years 2012 to 2016. The official fiscal note for the bill estimates a loss of \$16.5 million in general revenue in fiscal year (FY) 2013, and a \$35 million loss in FY 2014. When fully phased in, the elimination of the tax will cost the state's general revenue fund \$85 million.

"The elimination of the corporate franchise tax is imprudent when the state is already facing a general revenue shortfall approaching \$700 million," said Amy Blouin, Executive Director of the Missouri Budget Project. "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.**

"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).

The Missouri Senate recently passed and sent to the House SB 19, a similar bill to eliminate the tax.