

Fiscal Estimate Narratives

DOR 6/18/2003

LRB Number	03-2520/2	Introduction Number	SB-197	Estimate Type	Updated
Subject					
Single sales factor apportionment					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, most multistate corporations apportion taxable income attributable to the state using a three-factor formula: the ratio of a corporation's in-state property, payroll and sales to its property, payroll and sales everywhere. The sales factor is double-weighted in the apportionment formula. Special apportionment formulas are required for certain industries, including interstate railroads, financial organizations, public utilities, pipeline companies, interstate motor and air carriers and insurance companies.

This bill would change the apportionment formula for most industries to a formula based solely on the sales factor. The change would be phased in over a three-year period with the sales factor weighted at 60% for taxable years beginning in 2006, 80% for taxable years beginning in 2007 and 100% for taxable years beginning in 2008.

Taxpayers that have a net gain of 100 employees in this state could, at their option, apportion income with a single sales factor apportionment formula beginning in the year the employees are hired.

For taxable years beginning in 2006, the income of a gas or electric utility would be apportioned under the general apportionment formula, rather than under a special formula that equally weights payroll, property and sales factors. The income of a financial institution would be apportioned using a formula that phases in single sales factor apportionment over three years; the sales factor would be determined by rule by the Department. The income of an insurance company would phase in single premiums factor over a three-year period.

Based on Department data, it is estimated that changing to a single sales factor apportionment formula for corporations subject to the general apportionment formula would reduce corporate tax revenues on an annualized basis by \$10 million in the first year, \$29 million in the second year and \$45 million in the third year.

The fiscal effect of the change by fiscal year considers when the estimated payments made by businesses would likely change based on the tax years of the businesses. The attached table shows the estimated fiscal effect by fiscal year of the phase in. There would likely be a change in estimated payments made by businesses in the first fiscal year. The second and third fiscal years would include additional changes in estimated payments and tax return filings under the new sales factor percent. Single sales factor apportionment would not be fully phased in until the fourth fiscal year.

Under single sales factor apportionment, an estimated 5,500 corporations would have a tax change: 3,900 corporations would have an average tax increase of \$11,000 and 1,600 corporations would have an average tax decrease of \$53,000. More than 90% of the overall tax decrease would occur in the manufacturing sector.

The Department estimates that the provision to allow employers that create at least 100 net jobs the option of using single sales factor immediately after passage of the bill will decrease revenues by an additional \$1.3 million annually before single sales factor is phased in. The provision will decrease revenues on an annualized basis by an additional \$800,000 when the sales factor is weighted at 60% and \$300,000 when the sales factor is weighted at 80%.

An estimate of the Department's costs to administer the bill is not yet available.

Long-Range Fiscal Implications

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Fiscal Year Fiscal Effect of SSF Phase-In

Fiscal Year	Sales Factor	Sales %	Fiscal Year Fiscal Effect (\$ in millions)
2006	Phase 1	60%	(\$5)
2007	Phase 1/2	60%/80%	(\$19)
2008	Phase 2/3	80%/100%	(\$36)
2009	Phase 3	100%	(\$45)