FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Woods	**ORIGINAL DATE**	1/27/2025
SHORT TITLE	Corporate Income Tax to State Road Fund	**BILL NUMBER**	Senate Bill 28
		ANALYST	Graeser

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
CIT			**($741.200.0)**	**($746,000.0)**	**($758,200.0)**	Recurring	General Fund
			$741.200.0	**$746,000.0**	**$758,200.0**	Recurring	State Road Fund

Parentheses ( ) indicate revenue decreases.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	**No fiscal impact**	**$47.7**	**No fiscal impact**	**$47.7**	Nonrecurring	**General Fund**

Parentheses ( ) indicate expenditure decreases.

Sources of Information
LFC Files

Agency Analysis Received From
Taxation & Revenue Department

Agency Analysis was Solicited but Not Received From
Department of Transportation (DoT)

SUMMARY

Synopsis of Senate Bill 28

Senate Bill 28 changes the distribution of corporate income tax net collections from the general fund to the state road fund.

The effective date of this bill is July 1, 2026.

FISCAL IMPLICATIONS

LFC staff, based on the consensus revenue estimating group's December 2024 corporate income tax forecast, assessed the impact of shifting the entirety of projected corporate income tax collections from the general fund to the state road fund.

The bill does not include a recurring appropriation but diverts or "earmarks" revenue, representing a recurring loss from the general fund. LFC has concerns with including continuing distribution language in the statutory provisions for funds because earmarking reduces the ability of the Legislature to establish spending priorities.

SIGNIFICANT ISSUES

TRD notes the significant impacts of this transfer of funding sources:

> Directing all corporate income tax revenue to the state road fund will eliminate a recurring general fund revenue source, reducing the Legislature's budgetary flexibility with respect to the broad appropriation needs of the state in future years. In FY24, corporate income tax contributed $627.2 million to the general fund, or approximately 4.8 percent of recurring general fund revenue. This is up from $439.1 million in FY23, 3.8 percent of general fund revenue, due to the shifting of pass-through entity revenue to the corporate income tax program at the half-way point in FY24. The closer alignment of pass-through entity filings with the corporate income tax program required this accounting change. In FY25 pass-through entity revenue will be fully recognized in corporate income tax. This is forecasted to result in corporate income tax becoming 5.4 percent of recurring general fund revenue in FY25. Both corporate income tax and personal income tax are aggregated as one revenue source, income taxes, on the consensus revenue estimating group's forecast. Shifting one income tax source from the general fund will mark a significant change.
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> Corporate income tax revenue is notably volatile due to a large share of corporate revenue being tied to oil and natural gas extraction and the volatility of that industry. With new pass-through entity revenue recognized in corporate income tax, the volatility may increase as the entity-level tax is new and taxpayer preference on how to file is still being observed. In addition, changes at the federal level, including possible changes to the federal Tax Cuts and Jobs Act of 2017, and its imposition of a state and local tax deduction cap, could lead to changes at the state level for pass-through entities. While this volatility leads to challenges in forecasting the revenue for the general fund, being only 5.4 percent of general fund revenue, the general fund can absorb the volatility more easily. Shifting this revenue to the state road fund would more than double the revenue to this fund and lead to over 50 percent of the fund being subject to volatility. This would substantially increase the amount of revenue for budgeting but would likely lead to higher uncertainty in the budget planning of funding road projects.
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> While corporate taxpayers' use and need of roads could validate corporate income tax revenue being diverted to the state road fund to aid in maintaining roads, individual taxpayers also use roads. The diversion of Motor Vehicle Excise Tax is seen as a supportable earmark to the fund to directly tie vehicles sales to

ADMINISTRATIVE IMPLICATIONS

TRD Administrative Services Division will need to update the general ledger, revenue reporting and create a new distribution. It is anticipated this work will take approximately 60 hours split between 2 FTE of a pay band 70 and a pay band 80 at a cost of approximately $3,800. Collaboration and input from the Department of Finance and Administration is required as this will decrease general fund revenue distributions.

Implementing this bill will have a moderate impact on TRD Information Technology Division, approximately 510 hours or 3 months for an estimated $33,900 of staff workload costs.

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