LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 404** HLS 25RS 780
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 17, 2025 3:40 PM **Author:** WILLARD
Dept./Agy.: Department of Revenue
Subject: Administrative Functions in the Department of Revenue **Analyst:** Deborah Vivien

REVENUE DEPARTMENT EN DECREASE GF RV See Note
Provides relative to various tax administration functions of the Department of Revenue

Current law authorizes the state to charge interest on unpaid taxes and interest paid on refunds at various rates and deadlines. Proposed law delays by 180 days the interest on refunds to Direct Pay Numbers if sale is exempt, and changes the timing and rate of severance tax refunds for horizontal and deep water wells. Current law sources sales tax transactions when possession transfers. Proposed law provides an exception for drop shipment sales in which the sourcing occurs at the first of the title transfer or transfer of possession and codifies current practice with regard to taxation on the creation of title abstracts. Current law authorizes the Office of Debt Recovery to access gaming winnings to collect delinquent debt. Proposed law adds sports wagering to the list of eligible gaming winnings that may be accessed.
Proposed law removes obsolete language and allows a deferral of state income tax for deposits to a capital construction fund in a manner similar to federal law effective in tax year 2026.
Effective upon signature, except interest changes, which are effective July 1, 2025

EXPENDITURES	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**5 -YEAR TOTAL**
State Gen. Fd.	**DECREASE**	**DECREASE**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	
Annual Total						

EXPENDITURE EXPLANATION
There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION
CAPITAL CONSTRUCTION FUND income tax deferral - Effective in tax year 2026
As added in conference and beginning in tax year 2026, the bill allows deferral of income tax for deposits to a capital construction fund (CCF) for expenses related to upgrading or replacing a wide array of US-built vessels operating in domestic or international trade, regardless of the size of the company. With the expansion of the federal CCF program provisions in 2023, it appears that a number of Louisiana-based companies may qualify for this deferral as it is available to ocean liners, bulk vessel operators, offshore towing and supply operations, tug and barge operators, sightseeing boat operators, ferries, and harbor service operations, among others.

The bill does not change the taxability of the dollars spent on eligible capital construction but allows taxation to be deferred up to 25 years, which pushes collections into subsequent fiscal years. According to US Dept. of Transportation, Maritime Administration, the Louisiana taxpayers already participating in the federal program (as well as any new entrants) would presumably be eligible to defer state income tax against tax year 2026 obligations (about 40% or 55 of the 128 CCF fundholders nationwide have active Louisiana business registrations, as reported by USDOT Maritime Administration as of 3/4/25).

The magnitude of the state income tax reduction by fiscal year due to deferrals is uncertain as it will depend on CCF deposits by eligible taxpayers, (existing and new entrants) though reduction to state revenue could begin as early as FY 26 with estimated payments and could reduce revenue substantially and quickly depending on the amount of CCF deposits. This impact is noted as a DECREASE to SGF in FY 26 and FY 27 in the table assuming CCF investments are longer term. Any increase in revenue due to taxable withdrawals from the CCFs are expected to follow, though potentially spread over 25 years in a pattern that cannot be accurately predicted, with the net impact noted as SEE BELOW in the SGF line above. The impact will accrue to SGF for S-Corp filings and either the Revenue Stabilization Trust Fund or SGF for corporate filings, depending on whether corporate income tax collections are above $600M (noted as SGF in the table above). It is not clear if taxation may be deferred on the same CCF deposits in more than one state. **(Continued on Page 2)**

Senate	Dual Referral Rules	House
☐	13.5.1 >= $100,000 Annual Fiscal Cost {S & H}	☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒	13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}	☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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CONTINUED EXPLANATION from page one:

Revenue Explanation (continued)
INTEREST RATE and Applicability Changes - Effective July 1, 2025

1) Delays interest paid by the state on sales tax refunds claimed by taxpayers with a Direct Payment Number on exempt purchases by 180 days, which could increase SGF revenue by a minimal amount, possibly a few hundred thousand dollars.

2) Changes interest paid by the state on refunds from horizontal and deep water wells (normally from the 24 month exemption) from 4.35% for 180 days with judicial interest plus 3% thereafter to 0% for 90 days with judicial interest plus 3% thereafter, which is the same as a regular refund. The impact will depend upon the timing and amount of the refund claims as the state will still pay interest but under a different structure. These refunds are apparently typically related to the severance exemption in place for the shorter of 24 months or payout, where operators choose to pay severance until the actual exemption can be calculated, potentially accruing interest over many months. Any severance refunds owed by the state for more than 4 months will apparently accrue slightly more interest under the bill which implies a potential negative but immeasurable impact to SGF revenue as timing of future refunds is indeterminable.

DROP SHIPMENT SALES - Effective retroactively upon signature
Drop shipment sales could be sourced (taxed) outside the state under language adopted during the 2024 Third Extraordinary Session. A drop shipment sale is a sale in which the seller takes the order from the buyer but a third party ships the good directly to the buyer. While most sales are sourced at the transfer of possession, the bill excepts the sourcing of drop shipment sales to the earlier of the transfer of title or the transfer of possession allowing sales in which only the title transfers in Louisiana to be sourced in the state. The bill reinstates within the same fiscal year a practice that has been in place for many years through procurement processing companies. Since the collection and rebates under drop shipment sales have not been adjusted to conform to current language, related tax data was reported and incorporated into the revenue forecast in the same manner as if the law did not change, which makes the retroactivity have no impact.

Locals may not source these drop shipment sales in the same manner leaving local impact unknown. It is not clear how this language may change the sourcing of sales through marketplace facilitators, which may or may not have a significant impact to state and local revenue. Procurement Processing Companies operate under a negotiated contract with LED in which 20% of sales tax on drop shipment sales is retained by the state with 80% rebated back to the company. Of the procurement processing company sale tax retained by the state, 10% is dedicated to the Unfunded Accrued Liability Fund. According to LDR, the bill codifies current practice for in-state businesses creating abstracts of title with the sale sourcing to the location of the principal place of business.

OFFICE OF DEBT RECOVERY Access to Sports Bet Winnings - Effective upon signature
The bill authorizes access to sports bet winnings to recover debts referred to ODR in the same manner as other gaming winnings. To the extent that enforcement of debt recovery requires the state to access sports bet winnings after extinguishing all other means to recover the debt, ODR could collect an indeterminable amount of additional fees and funds to be distributed accordingly.

OTHER PROVISIONS - Effective upon signature
Other provisions of the bill repeal repeal obsolete language that will not impact state or local revenue.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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