LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 563** HLS 17RS 875
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 24, 2017 5:50 PM
Author: JONES
Dept./Agy.: Revenue
Subject: Corporate Alternative Minimum Tax
Analyst: Greg Albrecht

TAX/CORP INCOME OR +$739,500,000 GF RV See Note
Requires a minimum corporate income tax

Imposes an alternative minimum tax on corporate taxpayers who are members of a unitary business. The tax base of these corporations is considered their Louisiana economic activity and is equal to 50% of the sum their corporate franchise tax taxable capital and their Louisiana net income less any amount paid as franchise tax. The tax they pay is the greater of their corporate income tax after all tax credits, or the alternative minimum tax. The alternative minimum tax is 0% on Louisiana economic activity up to $100,000, then 0.75% on activity between $100,00 to $500,000, and 1.5% on activity over $500,000. Firms with corporate tax exemption contracts are not subject to the tax.

Effective for all taxable periods beginning on and after January 1, 2018.

EXPENDITURES	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**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	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$295,800,000	$739,500,000	$739,500,000	$739,500,000	**$2,514,300,000**
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**	**$295,800,000**	**$739,500,000**	**$739,500,000**	**$739,500,000**	**$2,514,300,000**

EXPENDITURE EXPLANATION

The implementation of a new tax with new calculations will likely require significant administrative expense to design, program, and test the tax processing system. The Dept. of Revenue estimates $26,000 of such costs in the case of this tax. The Dept. does not indicate the need for additional personnel, but given the additional computations by large consolidated tax filers, it is possible that additional personnel may be needed to roll out this new tax.

REVENUE EXPLANATION

Utilizing tax year 2016 state corporate income and franchise tax returns for 15,497 taxpayers that designated that their income was included on a consolidated federal income tax return, the Dept. of Revenue computed the alternative minimum tax base and tax liability for each of these firms, generating an aggregate tax liability of $897.8 million. Each firm's alternative minimum tax calculation was compared to each firm's corporate income tax liability after all tax credits; $158.3 million. The larger of the two calculations represents the additional tax liability of these firms under the alternative minimum tax; $739.5 million.

The Dept. notes that the bill contains no provisions for estimated payments or the applicability of income tax overpayments to the alternative tax, and assumes that the alternative tax would be paid in conjunction with income tax filings. The alternative tax is first applicable for 2018, and since approximately 80% of corporate income & franchise tax returns are filed on a calendar year basis, the Dept. assumes that 80% of the alternative tax ($591.6 million) would be filed and paid in the spring of 2019, the 2018 - 2019 fiscal year.

While some additional tax receipts are likely in FY19, this is an entirely new tax and an expectation of any particular amount of receipts without any experience with the tax entails substantial risk. Tax filing of a new tax of this magnitude, may be associated with a large degree of filings under extension; delaying the initial receipts of the tax. That risk is recognized by discounting the FY19 expectation by one-half, to $295.8 million. In addition, corporate taxes can be highly volatile, and estimates of corporate tax liability changes based on a single tax year of returns may not be representative of liabilities and payments in any particular fiscal year.

Senate Dual Referral Rules

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}

☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

House

☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
Legislative Fiscal Officer