LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 124** SLS 17RS 412
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 27, 2017 4:35 PM **Author:** WARD
Dept./Agy.: Revenue
Subject: Flat Corporate Income Tax Rate **Analyst:** Greg Albrecht

TAX/INCOME/CORPORATE OR DECREASE GF RV See Note
Provides for the rate of corporate income tax. (See Act)

Present law imposes a five rate & bracket structure on corporate Louisiana net income.

Proposed law replaces the current structure with a single 3.75% tax rate applied to all corporate Louisiana net income.

Applicable to all tax years beginning on and after January 1, 2018, contingent upon enactment of an unspecified Senate bill of this session.

The fiscal note assumes this bill contingent upon enactment of SB 161 which eliminates the refundability of certain corporate income and franchise tax credits.

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.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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						

EXPENDITURE EXPLANATION

The Dept. of Revenue will incur costs associated with designing, modifying, and testing the tax processing system. These costs are typically estimated in the tens of thousands of dollars of staff time ($51,000 in this case). Given the change of refundability status of the tax credits in SB 161, additional staffing resources may be necessary to handle taxpayer inquiries. An assessment of the cumulative need resulting from all legislation is made at the end of session which informs the budget request of the Dept.

REVENUE EXPLANATION

Assuming this bill is contingent upon enactment of SB 161, the intent of the two bills together appears to be a broadening of the tax base by switching refundable tax credits to nonrefundable status in SB 161, and lowering the tax rate in this bill SB 124. To evaluate this combination of bills, the Dept. of Revenue recalculated the returns filed in FY16 under the tax provisions that will be in place in FY18, then averaged that result with the actual returns filed in FY15. While still leaving certain 2015 and 2016 session actions unaccounted for, this provided a set of returns that roughly approximate a typical filing year under what will currently be FY18 law. The typical timing of tax year return filing in fiscal years was also accounted for.

The Dept. went through an extensive analysis of converting certain refundable tax credits to nonrefundable status, as required by SB 161, and then applied the single 3.75% tax rate to those recomputed tax returns. Compared to the returns under current law, the combined effect of SB 124 and SB 161 was a $164.4M reduction in tax liabilities. The positive revenue effects of an expanded tax base (and less tax credit refund payments) was insufficient to offset the negative revenue effects of dropping the effective corporate tax rate to 3.75% (from over 7%).

The analysis required to estimate the combined effects of the two bills has to rely on numerous assumptions and recomputations of prior tax year returns under future tax year conditions. In addition, the corporate tax base is highly volatile and tax returns from any particular year are not indicative of returns from any other year, and fiscal year filing patterns of tax year returns are subject to material change depending upon the nature of the tax law changes being implemented. Specific numerical results for particular fiscal years from such analysis is highly unreliable.

SB 161 changes the refundability of credits effective for the 2017 income tax year and the 2018 franchise tax year. SB 124 changes tax rates beginning with the 2018 tax year. Thus,some effects on quarterly payments will likely occur in FY18.

Senate Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 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}

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