

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 18** HLS 182ES 45  
 Bill Text Version: **ENGROSSED**  
 Opp. Chamb. Action: **W/ SEN FLOOR AMD**  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> June 3, 2018	8:01 PM	<b>Author:</b> JACKSON
<b>Dept./Agy.:</b> Revenue		<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Eligibility For Credit for Tax Paid To Other States		

TAX CREDITS EGF +\$12,600,000 GF RV See Note Page 1 of 1  
 Provides relative to the individual income tax credit for taxes paid to other states (Item #17)

Present law limits the amount of individual income tax credit available for taxes paid to other states, that provide a similar credit for their residents who paid tax to Louisiana, to the lesser of the actual amount of tax paid to the other state or the amount of Louisiana tax that would have been imposed had the income in question been earned in Louisiana. These provisions terminate, essentially, after tax year 2017, and return to earlier provisions that allow the credit to the full amount of tax paid to the other state.

Proposed law continues the current limitation provisions through FY23, and adds a deduction provision for a taxpayers proportionate share of taxes paid in another state at the entity level, when the other state tax does not contain a capital component. The deduction provision applies to taxes paid on or after January 1, 2018. In addition, the state earned income tax credit is increased from 3.5% of the federal credit amount to 5% whenever the state sales tax rate exceeds 4% Effective upon governor's signature.

<b>EXPENDITURES</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

  

<b>REVENUES</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$12,600,000	\$12,600,000	\$12,600,000	\$12,600,000	\$12,600,000	<b>\$63,000,000</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$12,600,000</b>	<b>\$12,600,000</b>	<b>\$12,600,000</b>	<b>\$12,600,000</b>	<b>\$12,600,000</b>	<b>\$63,000,000</b>

**EXPENDITURE EXPLANATION**

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

**REVENUE EXPLANATION**

Current law provisions affect returns filed for tax year 2017, affecting tax receipts through FY18. Retention of those provisions through FY23 will affect tax receipts in FY19-FY23. To estimate the likely effect of continuing the current credit limiting provisions beyond their expected termination, resident individual income tax data for tax year 2014 (the last tax year without limitation) was compared to that of tax year 2015 and 2016 (the first and second tax years of limitation). Tax year 2015 returns claimed \$31.3 million less for this credit than did 2014 tax year returns (\$52.6 million vs \$83.9 million), and tax year 2016 returns claimed \$34.8 million less for this credit than did 2014 tax year returns (\$49.1 million vs \$83.9 million).

To obtain a rough estimate of the deduction provision of the bill, the Department of Revenue looked back at out-of-state credit claims in 2013 (prior to any effectiveness of any limitation on the credit) and compared it to taxes paid to other states (as opposed to credits claimed) for 2015. The difference was approximately \$10 million. Assuming all of that difference is attributable to taxes paid in another state at the entity level, the most the deduction provision of the bill can provide to these taxpayers is \$600,000 at the state's top marginal tax rate of 6%. Out of caution for the uncertainty associated with the actual amount of taxes affected by the deduction provision of the bill, a doubling of the tax affect to \$1.2 million is recommended for purposes of this fiscal note. This amount reduces the net revenue gain to the state from continuing credit limitations discussed in the first paragraph above, for a net revenue gain to the state, relative to the current law expiration of the credit limitation, of some \$33.6 million.

The existing state earned income tax credit has averaged \$47.9 million in the last three complete years (FY15 - FY17). Since this bill increases the credit 43%, it is reasonable to expect an additional \$21 million of foregone state tax revenue as a result of this bill. While fiscal years tend to have more than one tax period of returns filed in them, for personal income tax returns involving nonbusiness income items such as this credit, the bulk of the effect of a change such as proposed by this bill tends to be exhibited in the fiscal year in which the first affected tax period ends. This bill makes this higher credit applicable for tax year 2018, and will reduce revenue starting in FY19.

The net effect of the bill's two provisions is \$12.6 million per year of additional net revenue receipts.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
<input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

**John D. Carpenter**  
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