

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 125** SLS 19RS 394
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 7, 2019	12:09 PM	Author: WARD
Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Corporate Franchise Tax		

TAX/FRANCHISE/CORPORATE EG -\$9,900,000 GF RV See Note Page 1 of 1
 Provides for a single rate of corporation franchise tax. (gov sig)

Present law levies a tax of \$1.50 per thousand dollars of the first \$300,000 of taxable capital, then \$3.00 per thousand dollars of capital above that amount.

Proposed law eliminates the bottom \$1.50 per thousand tier of tax.

Effective for taxable periods beginning on and after January 1, 2021.

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	\$0	(\$4,455,000)	(\$9,405,000)	(\$9,900,000)	(\$9,900,000)	(\$33,660,000)
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	(\$4,455,000)	(\$9,405,000)	(\$9,900,000)	(\$9,900,000)	(\$33,660,000)

EXPENDITURE EXPLANATION

Tax system changes will have to be made and these changes are typically estimated as several thousands of dollars of staff time for design, modification, and testing (estimated at \$26,000 per year in this case).

REVENUE EXPLANATION

The base of the estimated effect of the bill was established by the Dept. of Revenue as the gross franchise tax liabilities for tax year 2016, the most current complete filing year, inclusive of the extension of the tax to LLCs. The base of taxable capital under \$300,000 per filer was \$6.6 billion, generating a tax liability at \$1.50 per thousand dollars of \$9.9 million.

Past filing patterns suggest that within a fiscal year, 45% of franchise tax returns apply to the immediate tax year, 50% to the preceding tax year, and 5% from earlier tax years. Incorporating these factors results in a first fiscal year revenue reduction of \$4.455M (\$9.9M x 45%). The second year reduction will include a 50% filing factor and a 45% filing factor, resulting in a \$9.405M revenue reduction (\$9.9M x 45%) + (\$9.9M x 50%). The third year reduction will include all three years of return filings for 100%, resulting in a \$9.9M revenue reduction. Since the tax due in advance of the tax year (2021 in this bill), the first year of revenue loss is FY21, with full-effect revenue losses by FY23.

Actual revenue reductions are further complicated by the carry-forward of overpayments from prior years, which are still due to the taxpayer even if the tax is reduced. For the base tax year of 2016, the franchise tax credit carry-forward was some \$149 million. Smaller taxpayers may claim refunds rather than let their credits carry forward, increasing the annual revenue loss estimates above.

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}

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