

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 17** HLS 201ES 32
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

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Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Suspend Corporate Franchise Tax	

TAX/CORP FRANCHISE OR -\$10,200,000 GF RV See Note Page 1 of 1
 Suspends the corporation franchise tax levied on certain taxable capital and suspends the initial corporation franchise tax levied on certain entities (Item #16)

Present law levies a franchise tax at the rate of \$1.50 per \$1,000 on the first \$300,000 of taxable capital, and \$3.00 per \$1,000 on taxable capital in excess of \$300,000. The tax is due on the first day of a taxpayers normal accounting period (calendar or fiscal), and payable in the fifth month after the tax is due.

Proposed law suspends the first tier of the tax (\$1.50 per \$1,000 on the first \$300,000 of taxable capital), and the first-time initial tax, for franchise tax periods beginning July 1, 2020 and June 30, 2024.

Effective July 1, 2020.

EXPENDITURES	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
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	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	(\$9,100,000)	(\$10,200,000)	(\$10,200,000)	(\$10,200,000)	(\$1,100,000)	(\$40,800,000)
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	(\$9,100,000)	(\$10,200,000)	(\$10,200,000)	(\$10,200,000)	(\$1,100,000)	(\$40,800,000)

EXPENDITURE EXPLANATION

The Department will incur relatively minor costs in FY21 and FY22 (\$51,000/year) of IT staff time to modify the tax processing system to incorporate the suspension and then reinstatement of the tax.

REVENUE EXPLANATION

The Department of Revenue looked to the 2017/2018 tax year returns (2017 corporate income tax year, 2018 corporate franchise tax year: filed on a combined return) as the most recent year of complete filings to estimate the effect of suspending the first tier of the franchise tax. The franchise tax associated with this first tier of tax, after all nonrefundable credits, was \$10.2 million. Refundable credits require no tax liability, and would still be refunded to taxpayers.

The tax is suspended based on the due date of the tax, while the estimated state fiscal year revenue losses occur based on the payable date. Most taxpayers are on a calendar year normal accounting period. Thus, for the first year as an example, the due date for those filers is January 1, 2021, and the payable date is May 15, 2021. Some taxpayers are on fiscal year normal accounting periods. Thus, for the first year as an example, the due date for those filers is after January 1, 2021, and the payable dates are after May 15, 2021. Thus, most of the state revenue losses for each taxable period suspended will occur in the immediate fiscal year (\$9.1 million in FY21 for example), but some will occur in the following year (\$1.1 million in FY22 for example). This pattern is depicted in the table above, based on the payment pattern of the 2017/2018 tax returns evaluated by the department.

Initial tax of \$110 is levied on every new entity subject to franchise tax. This initial tax would also be suspended for new entities during the suspension period, and would add to the estimated losses above. Typically, the initial tax generates approximately \$110,000 per year, assuming the typical number of new entities each year in the next few years as in past years (about 1,100).

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