

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



Fiscal Note On: **HB 5** HLS 202ES 42  
 Bill Text Version: **REENGROSSED**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

**Date:** October 11, 2020 2:30 PM **Author:** DESHOTEL  
**Dept./Agy.:** Revenue **Analyst:** Greg Albrecht  
**Subject:** Corporate Franchise Tax Credit For Broadband Coverage

TAX CREDITS RE -\$50,000,000 GF RV See Note Page 1 of 1  
 Establishes an income or corporation franchise tax credit for certain broadband coverage providers (Items #39 & 65)

Proposed law provides a credit against state income and franchise tax liability to carriers who are awarded census blocks from the Federal Communication System Rural Digital Opportunity Fund Auction to provide broadband network service to unserved areas. The credit is \$500 per household or business in Louisiana when broadband network service is made available to them, regardless of whether the owner subscribes to the service. Credits can offset up to 50% of a taxpayer's income tax liability and 50% of a taxpayer's franchise tax liability in any one year, with a ten-year carry-forward of unused credit amounts. The credit is available beginning January 1, 2022, and the total amount of credits that may be granted is \$50 million.

Effective upon governor's signature.

<b>EXPENDITURES</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<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>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	DECREASE	DECREASE	DECREASE	DECREASE	<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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>					<b>\$0</b>

**EXPENDITURE EXPLANATION**

The Dept. of Revenue estimates \$65,000 of IT personnel time costs to modify the income and franchise tax collections systems to provide this credit and administer its cap.

**REVENUE EXPLANATION**

The Rural Digital Opportunity Fund Auction is a reverse auction where broadband carriers offer to provide service to rural areas that are unserved or underserved for a price. The lowest bidding carriers win the auction and are awarded census blocks by the FCC within which to provide service. The FCC has budgeted \$20.4 billion to provide to winning carriers over a ten-year period to offset their costs for providing the service they provide. The first auction is scheduled for October 29, 2020.

This bill will provide state tax credits of \$500 per structure that has service made available to it pursuant to the FCC auction / program. Credits can offset up to 50% of a carriers' income tax liability and 50% of its franchise tax liability in a year. Credits are nonrefundable, but a ten-year carry-forward is allowed. The credit appears to be first effective for tax year 2022, making the first fiscal year of exposure to state franchise taxes FY22, and state income taxes FY23. The bill provides for a total of \$50 million of state tax credits to be granted.

The magnitude and timing of annual state revenue losses is indeterminable. Winning carriers, their state tax liabilities, the number of structures involved (the aggregate total of \$50 million allows for 100,000 structures), and the timing of service completions are essentially unknown. As service is made available, tax credit claims will reduce annual state tax receipts by a cumulative amount of up to \$50 million. The earliest credits could be realized against the state fisc is FY22, to the extent some build-out of network service is achieved by the end of 2021. Associated credits could then be claimed against franchise tax liabilities of tax period 2022, which are due at the beginning of the tax period and payable by the fifth month of the tax period (within FY22). This first year of possible effect may not be large, but is allowed by the bill. More significant credit claims are likely in FY23 and beyond, when both franchise tax and income tax can be offset. The Revenue Dept has suggested an arbitrary allocation of fiscal exposure of \$10 million in FY23, and \$20 million in each of FY24 and FY25.

While the build-out of broadband service will result in additional economic activity in the state, that activity and associated fiscal impact is attributable to the federal program. In addition, the credit reduces state tax receipts, resulting in lower expenditures which reduces economic activity in the state. From these perspectives, the bill will result in a net loss of state revenue collections equivalent to the total amount of credit realized.

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}

**Christopher A. Keaton**  
**Legislative Fiscal Officer**