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## DIGEST

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HB 363 Original

2023 Regular Session

Nelson

**Abstract:** Phases-out corporate income and franchise taxes over four years, reduces the amount of exemptions, deductions, and credits that may be claimed on tax returns to reduce corporate income and franchise tax liability, and repeals the automatic reduction in the corporate franchise rate if certain revenue thresholds are met.

Present law requires that the tax to be assessed, levied, collected, and paid on the La. taxable income of every corporation to be computed at the following rates:

- (1) 3.5% on the first \$50,000 of La. taxable income.
- (2) 5.5% on La. taxable income above \$50,000 but not in excess of \$150,000.
- (3) 7.5% on La. taxable income above \$150,000.

Proposed law changes present law for taxable years beginning on or after Jan. 1, 2024, but before Jan. 1, 2025, by reducing the tax rates as follows:

- (1) From 3.5% to 2.63% on the first \$50,000 of La. taxable income
- (2) From 5.5% to 4.13% on La. taxable income above \$50,000 but not in excess of \$150,000.
- (3) From 7.5% to 4.63% on La. taxable income above \$150,000.

Proposed law provides for the further reduction of corporate income tax rates beginning on or after Jan. 1, 2025, but before Jan. 1, 2026, as follows:

- (1) From 2.63% to 1.75% on the first \$50,000 of La. taxable income
- (2) From 4.13% to 2.75% on La. taxable income above \$50,000 but not in excess of \$150,000.
- (3) From 4.63% to 3.75% on La. taxable income above \$150,000.

Proposed law provides for the further reduction of corporate income tax rates beginning on or after Jan. 1, 2026, but before Jan. 1, 2027, as follows:

- (1) From 1.75% to .88% on the first \$50,000 of La. taxable income

- (2) From 2.75% to 1.38% on La. taxable income above \$50,000 but not in excess of \$150,000.
- (3) From 3.75% to 1.88% on La. taxable income above \$150,000.

Proposed law prohibits tax from being assessed, levied, collected, or paid on the La. taxable income of any corporation for tax years beginning on or after Jan. 1, 2027.

Present law levies the corporation franchise tax on a corporation when any of the following occurs:

- (1) An organization does business within this state in a corporate form.
- (2) A corporation exercises its charter or the continuance of its charter within La.
- (3) An entity owns or uses part or all of its capital, plant, or other property in La. in a corporate capacity.

Present law provides, beginning Jan. 1, 2023, that the rate of the tax shall be \$2.75 per \$1,000 of taxable capital above \$300,000.

Proposed law provides for a four-year phase-out of the corporate franchise tax by reducing the tax rate levied on each \$1,000 of taxable capital, or major fraction thereof, in excess of \$300,000 as follows:

- (1) For taxable years beginning on or after Jan. 1, 2024, and before Jan. 1, 2025, from \$2.75 to \$2.06.
- (2) For taxable years beginning on or after Jan. 1, 2025, and before Jan. 1, 2026, from \$2.06 to \$1.38.
- (3) For taxable years beginning on or after Jan. 1, 2026, and before Jan. 1, 2027, from \$1.38 to \$0.69.
- (4) For taxable years beginning on or after Jan. 1, 2027, no corporation franchise tax shall be assessed, levied, or collected by the state nor paid by domestic or foreign corporations on taxable capital.

Present law provides for the determination of taxable capital for purposes of levying the corporation franchise tax as well as the tax treatment of capital stock, surplus and undivided profits, and the allocation of taxable capital. Present law further provides for the administration of the tax as well as the collection and payment of the tax.

Present law requires every corporation or other entity subject to the franchise tax to pay only an initial tax of \$110 in the first accounting period in which it becomes subject to the tax. After the first closing of the corporate books, the tax is payable as provided in present law.

Proposed law provides that no initial tax shall be levied or collected by the state nor paid by domestic or foreign corporations for taxable years beginning on or after Jan. 1, 2027.

Present law includes various tax incentives in the form of credits, deductions and exemptions from corporate income and franchise taxes which reduce a taxpayer's overall tax liability.

Proposed law retains present law but reduces the overall value of the amount of tax credits, deductions, and exemptions that may be claimed on a tax return to reduce a taxpayer's corporate income or franchise tax liability as follows:

- (1) For taxable years beginning on or after Jan. 1, 2024, but before Jan. 1, 2025, by 25%.
- (2) For taxable years beginning on or after Jan. 1, 2025, but before Jan. 1, 2026, by 50%.
- (3) For taxable years beginning on or after Jan. 1, 2026, but before Jan. 1, 2027, by 75%.
- (4) For taxable years beginning on or after Jan. 1, 2027, by 100%.

Present law suspends the state corporation franchise tax levied on corporations at the rate of \$1.50 for each \$1,000 of taxable capital, or major fraction thereof, on the first \$300,000 for small business corporations that have taxable capital of \$1M or less for franchise tax periods beginning between July 1, 2020, and July 1, 2023.

Proposed law repeals present law.

Present law requires the reduction of the corporate franchise tax rate if, beginning April 1, 2024, and each April first thereafter the prior fiscal year's actual corporate income and franchise tax collections as reported in the state's accounting system exceed the actual corporate income and franchise tax collections for the fiscal year ending June 30, 2019, adjusted annually by the growth factor provided for in existing constitution. If the conditions in present law are met, corporate franchise tax rates are reduced beginning the following January first.

Present law requires the reduced rate to be calculated by multiplying the current rate by the difference between one and the percentage change in corporate income and franchise tax collections in excess of the corporate income and franchise tax collections for Fiscal Year 2018-2019 adjusted annually by the growth factor as provided for in present constitution. Further prohibits this reduction unless both of the following conditions are met:

- (1) The prior fiscal year's actual total tax, licenses, and fees exceed the actual total tax, licenses, and fees for Fiscal Year 2018-2019, adjusted annually by the growth factor provided for in existing constitution.
- (2) The Budget Stabilization Fund balance as determined by the treasurer is at least 2.5% of the total state revenue receipts from the prior fiscal year.

Proposed law repeals present law.

Proposed law applies to all corporate income and corporate franchise taxable periods beginning on or after Jan. 1, 2024.

Effective if and when the proposed amendment of Article VII of the Constitution of La. contained in the Act which originated as House Bill No. \_\_\_ of this 2023 R.S. of the Legislature is adopted at a statewide election and becomes effective.

(Amends R.S. 47:287.11(A), 287.12, 601(B), (C)(2), and (D)(2); Adds R.S. 47:287.13, 601.3, and 611(C); Repeals R.S. 47:601.1 and 601.2)