



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **HB 146** HLS 23RS 208
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 10, 2023	5:33 PM	Author: WRIGHT
Dept./Agy.: REVENUE		Analyst: Benjamin Vincent
Subject: Corporation Income Tax: Flat, Reduced Rate		

TAX/CORP INCOME OR -\$424,000,000 GF RV See Note Page 1 of 1
 Provides for a flat rate for purposes of calculating the corporate income tax

Proposed law imposes a flat corporate income tax (CIT) rate of 4%.

Effective January 1, 2024, and applicable to all tax years beginning on and after that date.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	SEE BELOW	\$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

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	(\$78,000,000)	(\$381,000,000)	(\$424,000,000)	(\$424,000,000)	(\$424,000,000)	(\$1,731,000,000)
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	(\$78,000,000)	(\$381,000,000)	(\$424,000,000)	(\$424,000,000)	(\$424,000,000)	(\$1,731,000,000)

EXPENDITURE EXPLANATION

LDR reports that implementation of proposed law will require additional expenditures for system modification, development and testing, and tax form modification. The change is estimated at \$26,000 of staff time.

REVENUE EXPLANATION

LDR estimated the effect of proposed law using returns from Tax Year 2020, simulating the impact in a scenario where the current CIT rate structure (which took effect January 1, 2022) had been in effect at the time. The result is an aggregate liability reduction of \$424 million annually.

LDR notes that CIT filing typically follows a pattern such that 18% of the liability change is estimated to impact the initial year (FY24 estimated payments), followed by an additional 72% in the second year (FY25 returns and extensions), and a final 10% in the third year (FY26 returns and extensions). The resulting accumulation of liability reduction is reflected in the ramp-up to \$424 million of annual revenue loss in FY26, shown in the table above.

LFO notes that the actual revenue loss from proposed law may also differ materially from these estimates due to the volatility inherent in CIT collections. In recent years, corporate income and franchise tax collections have risen as high as \$1.4 billion in FY22, and as low as \$478 million in FY18. Collections in the fiscal year associated with the estimates used in this analysis amounted to \$805 million. If similar fluctuations in CIT collections are observed in future years, it is likely that the actual revenue impacts of proposed law will fluctuate in similar proportion.

Proposed law reduces the CIT to a rate that is lower than the top Individual Income Tax (IIT) rate of 4.25%. This potentially provides an incentive for business entities currently subject to the IIT to change into a structure that would be subject to a lower CIT rate. To the extent that this advantage may compel any entities to convert to C Corps, an additional revenue loss, not reflected in the table above, would result via reduced IIT collections that would not be fully offset by new CIT collections.

LDR reports that a total of approximately \$640 million in credit carryforwards are available for use by taxpayers who have overpaid past tax liabilities, and may either be credited against future tax liabilities or refunded upon request. To the extent that proposed law causes any taxpayers to request refunds where they otherwise would not have (e.g., due to a reduced tax liability to apply it toward), actual revenue impacts would be larger than indicated in the table above.

Senate
 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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