



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **SB 1** SLS 23RS 37
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 23, 2023	3:19 PM	Author: ALLAIN
Dept./Agy.: Revenue		Analyst: Benjamin Vincent
Subject: Repeal of Corporate Franchise Tax & Credits Against		

TAX/FRANCHISE/CORPORATE OR -\$324,000,000 GF RV See Note Page 1 of 2
 Repeals the corporate franchise tax. (1/1/25)

Repeals the corporate franchise tax, and upon its effective date, repeals the ability to claim credits against the tax.

Effective January 1, 2025.

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

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	(\$219,000,000)	(\$380,000,000)	(\$324,000,000)	(\$311,000,000)	(\$294,000,000)	(\$1,528,000,000)
Agy. Self-Gen.	\$0	\$0	\$0	(\$13,000,000)	(\$30,000,000)	(\$43,000,000)
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	(\$219,000,000)	(\$380,000,000)	(\$324,000,000)	(\$324,000,000)	(\$324,000,000)	(\$1,571,000,000)

EXPENDITURE EXPLANATION

LDR reports that implementation of proposed law will require additional expenditures for system modification, development and testing, tax form modification, and certain processing equipment modifications and development. The change is estimated at \$81,000 of staff time.

REVENUE EXPLANATION

CFT Liability Impact

Proposed law would result in a total elimination of corporate franchise tax (CFT) collections, which are typically spread over a an approximately three-year period. LFO anticipates that the CFT liability components of proposed law will begin affecting revenue collections in FY25, based on historical responses of estimated payments to policy changes. The estimated full-year impact of the tax liability component is an annual reduction of about \$176 million. This figure is based on simulating tax liability changes based on returns from tax year 2020, then adjusting the result to scale with anticipated CFT growth up to FY25 (the initial year of the bill's effectiveness).

Historically, roughly 45% of CFT liabilities have been remitted in the year in which they are owed, 50% in the year following, and 5% in the second year following. This effect effectively phases-in part of the annual revenue reduction until it is fully realized in FY27. Any CIFT collections over \$600M accrue to the Revenue Stabilization Fund instead of state general fund.

Overpayments Carryforward Impact

Additionally, LDR reports that approximately \$145 million of existing carryforwards of prior year overpayments with respect to CFT will be due to taxpayers as a refund upon repeal of the CFT, and will likely be claimed in FY24 and FY25. The effect of these anticipated claims is reflected in the table above as being split evenly over those two years.

Tax Credits Impact

To the extent that taxpayers with CFT liabilities also incur income tax liabilities, proposed law would additionally result in credits that would otherwise apply against CFT liability being claimed against income tax liability. This would result in state general fund revenues being reduced by an additional estimated \$148 million in all years, beginning in FY25.

As combined CIFT revenues that are above \$600 million are dedicated to the Revenue Stabilization Fund, and currently-adopted (current law) REC projections for CIFT are above that threshold beginning in FY27, the revenue impact is reflected in the table above as shared between the state general fund and dedicated funds beginning in FY27. A year-by-year breakdown of all effects is included on Page 2.

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}

Deborah Vivien
Chief Economist



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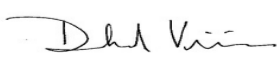
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CONTINUED EXPLANATION from page one:

FY (\$millions)	24	25	26	27	28
CFT Liability Change	-79	-167	-176	-176	-176
Carryforward of Overpayments	-73	-72			
Credits	-67	-141	-148	-148	-148
Total	-219	-380	-324	-324	-324

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
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