LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

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

REVISED

Date: April 27, 2023 10:16 AM
Author: ALLAIN
Dept./Agy.: Revenue
Subject: Corporate Franchise Tax: Phase-down & Repeal
Analyst: Benjamin Vincent

TAX/FRANCHISE/CORPORATE EG -$324,000,000 GF RV See Note
Repeals the corporate franchise tax. (1/1/25)

Proposed law phases-in annual reductions of Corporate Franchise (CFT) tax rates to zero over four years beginning in taxable year 2025, and fully eliminating the tax in Tax Year 2028.

Applicable to taxable years beginning January 1, 2025, and effective upon enactment and effectiveness of Senate Bill 6.

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

REVENUES	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**5 -YEAR TOTAL**
State Gen. Fd.	($49,000,000)	($125,000,000)	($211,000,000)	($286,000,000)	($319,000,000)	**($990,000,000)**
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	$0	$0	$0	$0	$0	**$0**
Annual Total	**($49,000,000)**	**($125,000,000)**	**($211,000,000)**	**($299,000,000)**	**($349,000,000)**	**($1,033,000,000)**

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 $51,000 of staff time.

REVENUE EXPLANATION

CFT Liability Impact: Proposed law phases out corporate franchise tax (CFT) over four years. CFT collections 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 FY24, 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 tax year of the bill's applicability).

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 be claimed as the tax phases down. The effect of these anticipated claims is reflected in the table above as being split evenly by year.

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 revenues being reduced by an estimated annual $148 million, following a similar 45/95/100% ramp-up, 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. Ultimately, the full-year impact of the bill will be an annual $324 million revenue reduction, that would be realized by FY30. A breakdown of all effects is included on Page 2. **(continued)**

Senate	Dual Referral Rules	House	
[ ]	13.5.1 >= $100,000 Annual Fiscal Cost {S & H}	[ ]	6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x]	13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}	[ ]	6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Deborah Vivien
Chief Economist

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CONTINUED EXPLANATION from page one:

Components contributing to total impacts on Page 1:

FY ($millions)	24	25	26	27	28
CFT Liability Change	-20	-62	-105	-149	-174
Carryforward of Overpayments	-29	-29	-29	-29	-29
Credits	-0	-34	-77	-121	-146
Total	**-49**	**-125**	**-211**	**-299**	**-349**

Discussion: Potential Partial Offset, Due to Contingency on Senate Bill 6

Proposed law is contingent on passage and effectiveness of Senate Bill 6. At the time of this analysis, SB6 Engrossed provides for a reduction in certain rebates under the Quality Jobs program in the event of a reduction of the CFT rate, which would serve to partially offset the revenue reductions caused by the phase-down of CFT rates to zero.

The offsets in SB6 will effectively phase in, and the ultimate timing and magnitude of their effect are very uncertain. For the purposes of discussing potential offsets to proposed law, and under several highly speculative assumptions, LFO anticipates that a full-year offset impact will ultimately amount to approximately 40% of the CFT liability reduction.

This partial offset for the first year's CFT rate reduction of 25% will likely not be realized fully until FY28. The reduction in rebate reductions will continue to phase in at the same time, implying that the full-year offset of 40% for the full CFT elimination may be fully realized in FY31.

These assumptions would result in potential offsets due to combined provisions from proposed law and SB6 as follows:
$0 offset in FY24, $0 offset in FY25, $8 million in FY26, $27 million in FY27, and $43 million in FY28.

Incorporating the potential impacts of combining proposed law with SB6 Engrossed would result in annual impacts as reflected in the table below.

FY ($millions)	24	25	26	27	28
Potential Net	-49	-125	-203	-273	-306

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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