LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 246** HLS 23RS 581
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 8, 2023 6:00 PM **Author:** DEVILLIER
Dept./Agy.: Revenue
Subject: Corporate Income Tax: Phase-out **Analyst:** Benjamin Vincent

TAX/CORP INCOME OR -$689,000,000 GF RV See Note
Phases-out the the corporation income tax over five years

Proposed law phases-in an elimination of state corporate income tax (CIT) over five years, fully eliminating the tax as of taxable year 2028.

Applicable to taxable years beginning on or after January 1, 2024.

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.	$0	INCREASE	INCREASE	INCREASE	INCREASE	**$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.	($120,000,000)	($325,000,000)	($505,000,000)	($618,000,000)	($685,000,000)	**($2,253,000,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	($13,000,000)	($30,000,000)	**($43,000,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($120,000,000)**	**($325,000,000)**	**($505,000,000)**	**($631,000,000)**	**($715,000,000)**	**($2,296,000,000)**

EXPENDITURE EXPLANATION

LFO anticipates that tax system changes will have to be made each year to provide for the changing tax liability calculation over the life of the phase-out. These changes are typically estimated as several thousands of dollars of staff time for design, modification, testing, and scanner modifications (estimated at $51,000 per year in this case, with an additional $30,000 in the first full year of the fully-repealed tax, FY28).

REVENUE EXPLANATION

Proposed law generally repeals CIT over a five-year period. As with all corporate tax estimates, significant uncertainty surrounds the anticipated impacts of proposed law.

CFT Liability Impact: CIT collections are typically spread over an approximately three-year period. LFO anticipates that the CIT liability components of proposed law will begin affecting revenue collections in FY24, based on historical responses of estimated payments to policy changes. Typically, roughly 18% of CIT liabilities have been remitted in the year in which they are owed, 72% in the year following, and 10% in the third year. This effect effectively phases-in part of the annual revenue reduction until it is fully realized in FY30. The estimated full-year impact of the tax liability component is an annual reduction of about $419 million.

Overpayments Carryforward Impact: Additionally, LDR reports that approximately $438 million of existing carryforwards of prior year overpayments with respect to CIT will be due to taxpayers as a refund upon repeal of the CIT, and will be claimed as the tax phases down. The effect of these anticipated claims is reflected in the table above as being spread evenly over the phase-down (approximately $88 million per year).

Tax Credits Impact: To the extent that taxpayers carrying CIT liabilities and CIT credits also incur other tax liabilities, proposed law may additionally result in credits that would otherwise apply against CIT liability being claimed against other revenue streams. This effect will likely result in revenues being reduced by an amount up to approximately $270 million in addition to the liability and carryforward of overpayments impacts, following a similar phase-down of CIT liabilities. These effects contribute to the totals reflected in the table above.

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 **approximate full-year impact of the bill will be an annual $689 million revenue reduction**.

Senate Dual Referral Rules House

[ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

[ ] 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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