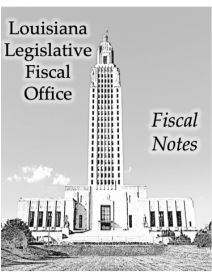


**LEGISLATIVE FISCAL OFFICE  
Fiscal Note**



Fiscal Note On: **HB 428** HLS 23RS 174  
 Bill Text Version: **ENGROSSED**  
 Opp. Chamb. Action: **W/ SEN FLOOR AMD**  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> June 4, 2023	7:39 PM	<b>Author:</b> PRESSLY
<b>Dept./Agy.:</b> Revenue		<b>Analyst:</b> Benjamin Vincent
<b>Subject:</b> Pass-through Exclusion: Estates, Trusts, Partnerships		

TAX/INCOME TAX EGF DECREASE GF RV See Note Page 1 of 1  
 Extends to estates, trusts, and partnerships the flow-through entity income exclusion allowed to individuals

Current law allows an individual who is a shareholder, partner, or member of a pass-through entity which elects to pay Louisiana income tax at the entity level to exclude any net income or loss received from the entity. Such entities file and pay Louisiana income tax on income sourced in the state as if they were C corporations, but at individual income tax rates. Current law provides for a sole means of termination of pass-through entity status- termination by the secretary of LDR.

Proposed law authorizes the use of the pass-through entity exclusion of net income by estates, trusts, and partnerships. Proposed law additionally authorizes an application process to be administered by LDR that would allow the termination of pass-through entity status in the taxable year following submission, and disallows additional status changes for the following five taxable years. Applicable for taxable periods beginning on or after January 1, 2023.

<b>EXPENDITURES</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>						

<b>REVENUES</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>						

**EXPENDITURE EXPLANATION**

LDR anticipates that implementation of proposed law will require additional expenditures for system modification, development and testing, and modification to tax forms and Revenue Processing Center scanners. The change is estimated at a total of \$81,000 of staff time.

**REVENUE EXPLANATION**

**Expansion of Exclusion to Estates, Trusts, and Partnerships**

Current law authorizes an exclusion from Louisiana income tax for net income or losses earned by members, partners, or shareholders in pass-through entities for individuals. Proposed law additionally authorizes the exclusion for estates, partnerships, and trusts.

To the extent that entities in the state operating as pass-through entities pay income taxes, and net income from these entities is included in the tax liability of their members, partners, or shareholders, revenue collections would be reduced due to proposed law.

Data that can be used to estimate the magnitude of the likely effect is not available. For informational purposes, based on claims since the pass-through exclusion for individuals was enacted in 2019, LDR anticipates that the revenue reduction due to the exclusion for individuals will amount to approximately \$17 million in FY24. LDR notes that the partnership provisions in proposed law are already current practice and would thus be of no effect.

**Authorization of Pass-through Entity Status Termination via Application**

Proposed law would grant taxpayers the use of an additional tax-planning tool to minimize tax liabilities. The pass-through entity election may serve to either reduce or increase an individual's taxpayer's state tax burden, the effect on any individual's overall tax burden will be different, as any impacts on state tax liability may be offset or augmented by the impact on the taxpayer's federal tax liabilities. Presumably taxpayers will opt for the action that minimizes overall tax burden. The resulting impact of the election provision on state tax liabilities may be either negative or positive, and is indeterminable in magnitude.

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  
 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**