LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 2** HLS 243ES 11

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action: **w/ SEN COMM AMD**

Proposed Amd.: **W/ PROP SEN FLOOR AMD**

Sub. Bill For.:

Date: November 22, 2024 7:12 AM **Author:** EMERSON

Dept./Agy.: Revenue

Subject: Flat 5.5% CIT Rate; Credit & Program Sunsets **Analyst:** Benjamin Vincent

TAX/CORP INCOME RE1 SEE FISC NOTE RV See Note

Provides for a flat rate for purposes of calculating corporate income tax and terminates certain corporate income tax exemptions, deductions, and credits (Item #4)

Assumed posture of proposed law includes proposed amendments that are not adopted, possibly not in final form, and not time-stamped. They include Proposed Senate Floor Amendment set #164. These amendments as understood by LFO after a very brief review are incorporated into this analysis.

Proposed law replaces the graduated current-law corporate income tax (CIT) rates into a single rate of 5.5% with a standard deduction of $20,000, beginning in tax year 2025. It additionally repeals applicability of certain credits or exemptions to CIT liabilities with immediate effect. Proposed law additionally repeals or reduces granting of certain credits unless applied for or earned prior to July 1, 2025. Proposed law authorizes enhanced deductibility of depreciation for certain business expenditures ("Bonus Depreciation"), repeals provisions regarding foreign trade zones, and repeals refundability for certain credits.

Effective January 1, 2025

EXPENDITURES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	**$200,000**	$0	$0	$0	$0	**$200,000**
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	**$200,000**	**$0**	**$0**	**$0**	**$0**	**$200,000**

REVENUES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	**($5,000,000)**	**($5,000,000)**	**$5,000,000**	**$17,000,000**	**$30,000,000**	**$42,000,000**
Agy. Self-Gen.	**($1,000,000)**	$0	**$1,000,000**	**$1,000,000**	**$2,000,000**	**$3,000,000**
Ded./Other	**($119,000,000)**	**($59,000,000)**	**($6,000,000)**	**$35,000,000**	**$75,000,000**	**($74,000,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($125,000,000)**	**($64,000,000)**	**$0**	**$53,000,000**	**$107,000,000**	**($29,000,000)**

EXPENDITURE EXPLANATION

LDR reports anticipated one-time expenditures for minor system design and specification updates, testing, and system development in support of tax return modifications and processing system modification. Anticipated costs total approximately $200,000, and would come out of SGR collections, as reflected in the table above. Any such expenditure increases will serve to mechanically reduce net receipts (SGF) by a like amount. LFO assumes that these expenditures would impact FY 25.

REVENUE EXPLANATION

The overall fiscal impact of this proposal by year is affected by multiple moving parts. Each of the major components are discussed below, and the combination of these individual factors implies an FY25 CIFT net impact of -$123 million, and net positive CIFT revenue impacts in all subsequent years as reflected in the table above under Dedicated revenues. Various offsetting provisions imply SGF gains in FY27 and subsequent years, as reflected in the table above. Proposed law impacts certain collections that LDR is currently permitted to retain 1% of as SGR, reflected in the table above as reduced Self-generated revenues.

Note: provisions contained in Senate Floor Amendments include repealed credit refundability, carryforward of certain credits, a new standard deduction, and refunds of certain credits. As a whole, these provisions are assumed to roughly offset each other for purposes of this analysis.

LFO assumes for this analysis that future-year collections approximate the collections observed in the tax return data for the year used for these estimates. Such collections imply that under proposed law - considered in isolation - total CIFT collections would remain above the $600 million threshold, such that resulting changes in CIFT collections impact the Revenue Stabilization Trust Fund (RSTF), reflected above as reduced Dedicated revenues.

Discussion of Specific Provisions

Transition to Flat 5.5% Rate (Tax Liability Impact)

The corporate income tax liability change was modeled using returns filed for taxable year 2021, modified to reflect the 2022 tax code. Historical filing patterns suggest that 28% of payments due are collected in the year they are incurred, with an additional 65% collected in the subsequent year, and the remaining 7% typically collected in the third year. Thus the full effect resulting from a flat 5.5% rate is reflected in the table above as fully-realized in FY27. Filing patterns imply a CIT liability impact of -$86 million in FY25, a -$285 million impact in FY26, and a -$306 million impact in FY27 and in subsequent years.

(continued on Page 2: impacts of other provisions)

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		[x] 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}

Alan M. Boxberger

Alan M. Boxberger
Legislative Fiscal Officer

CONTINUED EXPLANATION from page one:

Discussion of Specific Provisions (continued)

Certain Credits Immediately Disallowed:
Proposed law repeals the applicability of several credits with immediate effect. Under current law, such credits are estimated to reduce CIT revenues by approximately $145 million, and in the proposed law would serve to partially offset the revenue loss from the CIT rate reduction. Additionally, the repeal of such credits would increase Corporate Franchise Tax net collections in a similar manner by approximately $115 million.

LFO assumes that these repeals would materially offset revenue losses relatively quickly, reflected as a contribution of +$260 million in FY26 and subsequent years in Dedicated revenues.

Certain Credits Terminating by Application or Certification Date:
The repeal of these items is not likely to materially increase net CIFT collections immediately, as there is typically a lag between the time that such credits are granted and the time that they are ultimately claimed. Additionally, the proposal sets a future date (July 1, 2025) after which no credits will be granted, which will likely engender a spike in the number of applications and notices prior to the deadline. All such outstanding credits would need to be paid out in order to fully realize the full revenue gain from this element of the proposed bill.

Credits (terminating by application date) that would no longer be authorized are anticipated to reduce CIFT revenues by approximately $245 million in FY25 under current law. A net CIFT revenue increase of comparable magnitude would eventually occur due to disallowing new participation after July 1, 2025.

However, LFO believes that such an increase is unlikely to manifest fully within the 5-year fiscal note horizon, as many outstanding credits will be applied against a smaller CIFT tax base (due to the reduced rate). This factor contributes an assumed increasing annual portion of the estimated +$245 million; 20% in FY27, 40% in FY28, and so on until an annual impact of approximately +$245 million is ultimately realized by FY31.

Additionally, several credits terminated by proposed law apply to revenue streams other than corporate taxes, and as such will partially offset CIFT revenue losses that are dedicated to the RSTF, while also partially reducing losses to revenue streams that accrue to SGF. This effect would eventually serve to increase SGF net collections by approximately $39 million, via increased IIT and sales tax collections by FY31.

Double Counting Issue:
Provisions terminating certain credits by application or certification date appear to duplicate several provisions contained in HB 1 Original of the 3rd Extraordinary Session of 2024, which would serve to increase net CIT, CFT, IIT, and general sales tax collections and increase SGF revenues.

The fiscal note on HB 1 Original also currently incorporates these SGF impacts of +$39 million, thus their inclusion in this analysis results in double-counting should both bills become law. If either bill should achieve final passage, the fiscal note on the other bill would remove the effect of this provision from its overall impact estimate.

Existing Carryforwards of Refunds/Overpayments:
Approximately $137 million of overpayments carried forward exist that may be claimed against taxable periods after 12/31/2022. Reduced liabilities in taxable year 2025 may accelerate claims of these refunds, reducing FY25 net CIT revenue. For purposes of this analysis, LFO assumes that 25% (~$34 million) of the corpus of such claims are pulled into FY 25 that would otherwise not be, with a similar impact occurring in FY26.

Reduced SGF Interest Earnings Due to Net Loss of CIFT Revenues & RSTF Deposits
Net changes to CIFT revenues will impact SGF Interest earnings, relative to a current law baseline. Using an average 3.3% interest rate, the impact is an estimated -$5 million in FY25 and FY26, -$3 million in FY27, +$1 million in FY28, and +$6 million in FY29.

New Bonus Depreciation Exemption and Repeal of Foreign Trade Zone Definition for Apportionment Purposes:
Proposed law expands the expenditures eligible to qualify for a depreciation deduction to 100% in the year that the eligible property is placed in service ("Bonus Depreciation or Amortization"), and additionally repeals an apportionment provision that defines movable property located in foreign trade zones as outside the state. The Bonus Depreciation provision would serve to reduce CIT collections, and the foreign trade zone provision would serve to increase CIT collections by expanding the taxable base.

As of the construction of this analysis, LFO has no reliable basis for the magnitude of the effect of either provision, and assumes that they approximately offset each other.

Senate	Dual Referral Rules	House
[x]	13.5.1 >= $100,000 Annual Fiscal Cost {S & H}	[x] 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}

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