LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **HB 41** HLS 051ES 191
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ SEN COMM AMD**
Sub. Bill For.:
Proposed Amd.:

Date: November 18, 2005 6:54 AM
Author: HAMMETT
Dept./Agy.: Revenue
Subject: Corporate Franchise Tax - Borrowed Capital
Analyst: Greg Albrecht

TAX/CORP FRANCHISE RE1 -$12,900,000 GF RV See Note

Provides for the computation of borrowed capital by corporations affected by Hurricane Katrina or Rita which have incurred extraordinary debt (Item #16)

Allows corporations, having 50% or more of their property and assets in the state situated or used in the Federal Emergency Management Agency Individual Assistance areas of hurricanes Katrina or Rita or having 50% or more of their revenue derived in the state attributable to those areas, to compute their borrowed capital tax base on the basis of the year closing immediately prior to August 28, 2005.

Effective upon governor's signature.

EXPENDITURES	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$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	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**5 -YEAR TOTAL**
State Gen. Fd.	($12,900,000)	($10,800,000)	($8,700,000)	($6,600,000)	($4,500,000)	**($43,500,000)**
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	**($12,900,000)**	**($10,800,000)**	**($8,700,000)**	**($6,600,000)**	**($4,500,000)**	**($43,500,000)**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The bill provides a 100% permanent exclusion from the corporate franchise tax to debt incurred in excess of the borrowed capital on the books of eligible corporations immediately prior to landfall of Hurricane Katrina. The bill may target this benefit to debt that would not have been incurred except in response to the hurricanes. However, the bill defines the debt eligible for this benefit as any debt in excess of the borrowed capital on the books of eligible firms on the calendar or fiscal year closing immediately prior to August 28, 2005. Eligible debt does not appear to have to be related to damage resulting from the storms. In addition, firms do not have to be located in the areas impacted by the storms, but can be eligible if they sold into the impacted areas and can attribute at least 50% of their revenue to those sales.

The Department of Revenue estimated the potential fiscal effect of this benefit by assuming that the aggregate statewide debt ratio (debt to total corporate franchise tax base) would rise from 46% to 50%. This translates into $5.5 billion of eligible debt and $15 million per year of franchise tax collections. Since current law is already phasing out the franchise tax on borrowed capital, the estimated annual revenue losses decline over time as displayed in the table above.

To the extent this benefit accrues to debt that would not have been incurred save for the experience of the two storms, some portion of the estimated tax effect is not a reduction in expected revenue but a preclusion of an unexpected revenue gain. However, the bill is not limited to extraordinary or storm-related debt and also applies to firms that experienced no physical storm damage at all. Thus, it is likely that some portion of the estimated tax effect is a reduction in expected revenue collections. For these reasons and the fact that an assumed four percentage point increase in the statewide debt ratio is a fairly large increase in the debt component of the franchise tax base, the estimated revenue losses in the table above are likely maximum potential revenue losses.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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