



LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **SB 112** SLS 051ES 561
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Sub. Bill For.:
 Proposed Amd.:

Date: November 18, 2005 7:02 AM **Author:** SHEPHERD
Dept./Agy.: Revenue **Analyst:** Greg Albrecht
Subject: Corporate Franchise Tax - Borrowed Capital

TAX/TAXATION OR -\$12,900,000 GF RV See Note Page 1 of 1

Provides for computation of borrowed capital by corporations affected by hurricanes Katrina or Rita which have incurred extraordinary debt.

1) Allows corporations, having 50% or more of their property and assets 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 attributable to those areas, to compute their borrowed capital tax base on the basis of the year closing immediately prior to August 28, 2005.

2) The bill applies to any corporation (and specifically names Terry Bradshaw and Associates) which may borrow capital for the purpose of purchasing any National Football League franchise team where the debt incurred is to be used to revitalize a Hurricane Katrina or Hurricane Rita Federal Emergency Management Agency Individual Assistance Area.

3) The bill specifically shall not benefit the current owner of the New Orleans Saints or any relatives thereof.

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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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.

The Department of Revenue is not aware of any current corporate franchise tax filer corporation named Terry Bradshaw and Associates, and indicates that the bill would not apply to any such newly formed corporation because that firm would not have any debt prior to August 28, 2005. Any benefit that might be denied to the current owner of the New Orleans Saints or any relatives would depend on those entities incurring debt after August 28, 2005, any amount of which is unknown.

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

H. Gordon Monk

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Legislative Fiscal Officer