LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office
Fiscal Notes

Fiscal Note On: **HB 634** HLS 13RS 929
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 14, 2013 11:27 AM
Author: SEABAUGH
Dept./Agy.: Revenue
Subject: Phase Out Corporate Income and Franchise Tax
Analyst: Greg Albrecht

TAX/CORP INCOME OR -$76,000,000 GF RV See Note

Phases out corporation income and corporation franchise taxes over a 10-year period

Current law levies a tax on corporate net income of 4% of the first $25,000, 5% from $25,000 - $50,000, 6% from $50,000 - $100,000, 7% from $100,000 - $200,000, and 8% above $200,000. Corporate filers are allowed to deduct federal taxes paid when computing their state taxable income. A tax is also levied on taxable capital of 0.15% of the first $300,000 and 0.3% above $300,000.

Proposed law, with proposed House Committee amendments, phases out both taxes evenly over a four year period in annual increments of 25%. The first reduction for income tax is tax year 2016, and for franchise tax is tax year 2017.

Effective upon governor's signature.

EXPENDITURES	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**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	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0		($76,000,000)	($157,000,000)	**($233,000,000)**
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	**$0**	**$0**	**$0**	**($76,000,000)**	**($157,000,000)**	**($233,000,000)**

EXPENDITURE EXPLANATION

The Department of Revenue will incur costs involved in modifying its systems dealing with both the corporate income and franchise taxes. Taxpayer education and compliance support expenses may also be incurred. These costs should be minor on an annual basis, but will be recurring over the phase out period.

REVENUE EXPLANATION

The current official forecast for corporate income and franchise tax combined is held steady at $340 million per year throughout the forecast horizon. Of that total, the income tax comprises approximately 75% ($255 million) and the franchise tax 25% ($85 million). Since receipts in a fiscal year reflect returns filed for a number of tax years, the revenue loss from a phase out of these taxes will likely be less in the early fiscal years after each rate drop, and eventually grow to the full effect for each fiscal year, but accumulating the phases each year. The Department attempted to get a sense of the proportion of fiscal year receipts attributable to different tax years by querying their tax system for different tax year returns filed within various fiscal year periods. The results of that query for the FY12 period provide a rough guide for how these taxes may phase-out even under an immediate repeal; 88% income and 93% franchise in their respective year 1, 94% income and 99% franchise in year 2, and 100% for both taxes by year 3 (with some small residual actually likely). The corporate franchise tax is paid in advance. Thus, FY17 is the first fiscal year likely to lose franchise tax receipts, and FY17 is the first fiscal year likely to lose income tax receipts. These factors are combined to generate the revenue losses depicted in the table above. Estimated revenue losses through the remainder of the phase out are: FY19 $242 million, FY20 $327 million, FY21 $336 million, FY22 $340 million. After that point there should be essentially no material receipts from these two taxes. Based on the discussion below, these will likely be minimum revenue losses. The bill phases out major state revenue sources, against which the cost of various benefits are charged. For nonrefundable tax credits (42 credits, $150 million), the eventual elimination of the taxes is likely more beneficial to recipients than the credits themselves, although there may be an issue of how to resolve the benefit of unused credit amounts that are carried forward from prior years. A similar issue has to do with refundable credits (23 credits, $400+ million) and rebate payments (6 operative, $185+ million). In these cases, 100% of the benefit is available immediately to recipients regardless of tax liability, and in the case of direct cash payment programs without connection to the tax filing of the recipient at all. If these taxes are phased out, it is not clear if these benefits are phased out as well. If these benefit are to continue as these taxes are phased out, then total costs to the state from phasing out these taxes will be effectively greater than depicted here. The state would lose the net revenue expected from these taxes after all benefits are charged, and the state would still have the costs of the benefits to cover with other revenue collections or appropriations.

Another issue involves refund carryovers, which are $350 million - $400 million. Presumably, these will have to be paid. In addition, there are likely net operating loss deductions that can be carried back to prior years for refund, as well.

Finally, after rising and falling dramatically through the last business cycle, these taxes may be in the early stages of an up-cycle. Thus, actual base losses may be greater over the phase out period than the current flat forecast anticipates.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F) >= $500,000 Annual Fiscal Cost {S}
☒ 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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