LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 626** HLS 13RS 1082
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.: **w/ PROP HSE COMM AMD**
Sub. Bill For.:

Date: April 14, 2013 2:09 PM
Author: JACKSON, K
Dept./Agy.: Revnue
Subject: Modify Corporate Income and Franchise Tax
Analyst: Greg Albrecht

TAX/CORP INCOME OR -$79,000,000 GF RV See Note

Reduces the rate for corporate income tax and repeals corporate franchise taxes and federal deductions allowed on net state corporate income tax

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 reduces each income tax rate by 1 percentage point to 3%, 4%, 5%, 6%, and 7%, respectively, and repeals the deductibility of federal taxes paid in computing taxable income. Also repeals the corporate franchise tax entirely.

Effective January 1, 2014, if HB 623 of this session is enacted (a bill increasing the state tobacco tax).

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.	($79,000,000)	($109,000,000)	($111,000,000)	($113,000,000)	($113,000,000)	**($525,000,000)**
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	**($79,000,000)**	**($109,000,000)**	**($111,000,000)**	**($113,000,000)**	**($113,000,000)**	**($525,000,000)**

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 and one-time in nature.

REVENUE EXPLANATION

With respect to the corporate income tax, the bill expands the tax base by eliminating the deductibility of federal income taxes paid in the computing state taxable net income, and then reduces each tax rate tier by two percentage point. To get a sense of the potential revenue impact, the Revenue Department recalculated corporate income tax returns without the deduction and under the lower tax rates for tax years 2009, 2010, and 2011. Those returns would have had increased tax liabilities of some $23 million, $28 million, and $32 million, respectively; averaging $28 million for these three tax years. The corporate income tax is primarily paid near the end of the fiscal year, with further reconciliation in the fall for returns filed under extension. Thus, FY15 is the first fiscal year likely to lose tax receipts under this portion of the bill. Since receipts in a fiscal year reflect returns filed for a number of tax years, the revenue effect from a rate and/or base change will likely be less in the early fiscal years after the change, and eventually grow to the full fiscal year effect. 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 be affected when changed; 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). Applying these factors to the average revenue gain above (consistent with the stable official forecast for corporate receipts) generates corporate income tax increases of $25 million in FY15, $26 million FY16, and $28 million by FY17.

The bill also repeals the corporate franchise tax entirely. Utilizing an assumption of 25% of the total corporate collections forecast will be attributable the franchise tax (approximately the FY12 actual share), the repeal of the tax can be expected to reduce revenues by some $85 million per year. The corporate franchise tax is paid in advance. Thus, FY14 is the first fiscal year likely to lose tax receipts under this portion of the bill. Consistent with the stable official forecast for corporate receipts and applying the tax year factors above, franchise tax losses are expected to be $79 million in FY14, $84 million in FY15, and $85 million by FY16.

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 time than the current flat forecast anticipates.

Senate — Dual Referral Rules — House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}

☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

☐ 6.8(F) >= $500,000 Annual Fiscal Cost {S}

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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