LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 402** HLS 15RS 406
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 19, 2015 3:35 PM
Author: STOKES
Dept./Agy.: Revenue
Subject: Eligibility For Credit For Tax Paid To Other States
Analyst: Greg Albrecht

TAX/INCOME TAX OR +$20,800,000 GF RV See Note
Adds requirements for eligibility for the income tax credit for taxes paid in other states

Current law allows a nonrefundable credit against resident Louisiana personal income tax for income taxes paid to another state.

Proposed law limits the availability of this credit to taxes paid to other states that provide a similar credit for their residents who paid tax to Louisiana. The amount of credit allowed against Louisiana tax liability is limited to the lessor of the actual tax paid to the other state or the amount of Louisiana tax that would have been imposed had the income in question been earned in Louisiana. The credit is not allowed for taxes paid to another state that allows such a credit for nonresident filers in that state who paid tax to their own state of residence.

Applicable to tax periods beginning on and after January 1, 2015. Effective July 1, 2015.

EXPENDITURES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**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	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**5 -YEAR TOTAL**
State Gen. Fd.	$20,800,000	$33,200,000	$33,600,000	$33,800,000	$34,000,000	**$155,400,000**
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	**$20,800,000**	**$33,200,000**	**$33,600,000**	**$33,800,000**	**$34,000,000**	**$155,400,000**

EXPENDITURE EXPLANATION

The Department of Revenue (LDR) will incur costs for computer system modification and testing, tax form redesign, and tax payer inquiries. In addition, LDR indicates that this change will likely require an additional worksheet to facilitate the calculation of the limited credit. These costs are typically small for individual tax law changes (but still likely to be several tens of thousands of dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.

REVENUE EXPLANATION

The bill likely limits the amount of tax credit allowed against Louisiana tax liabilities from its limitation of the credit amount to the lessor of the actual tax paid to the other state or the amount of Louisiana tax that would have been imposed had the income in question been earned in Louisiana. While there are various nuances across states regarding this type of credit with regard to both resident and nonresident filers, states in general allow this credit to their residents and do not allow this credit to nonresident filers in that state who paid tax to their own state of residence. Thus, for most affected taxpayers those eligibility conditions will likely be met and some amount of credit will be allowed. Beyond that it is difficult to reliably know or estimate how much of the existing credit amount realized each year will be limited by this bill. To the extent Louisiana tax liabilities are less than those of other states for those filers claiming this credit, there will be a reduction in the amount of credit allowed to be taken.

Louisiana tends to rank fairly low in state tax rankings, suggesting that this bill is likely to materially limit the existing amounts of credit realized. For example, Tax Foundation comparisons of state personal income tax collections per capita for 2013 report Louisiana at 60% of the average across states. Applying that factor to the amount of this credit realized in FY14 ($86 million), as reported in Revenue Dept. Tax Exemption Budget, suggests an aggregate credit reduction of some $34 million is possible.

However, fiscal year realizations result from multiple tax years of returns processed within the fiscal year, while the bill limits the credit starting with the single tax year of 2015. Thus, in FY16 only a portion of the returns processed in that fiscal year will be returns filed subject to the change made by this bill. In FY17, a greater portion of returns processed will be subject to this bill, with a greater portion in FY18, FY19, and FY20. The revenue effect of the bill will accumulate toward the full amount over time as successive tax years are subject to the credit limitation.

LDR isolated the respective tax year returns claiming this credit within the last two complete fiscal years (FY13 & FY14). Each tax year's share of credit effect in each fiscal year was calculated and averaged over the two fiscal years. For the first preceding tax year the share was 61%; for the second preceding tax year 36%%, and 1% for each of the preceding years. These annual shares are then accumulated for each succeeding fiscal year of the fiscal note horizon: FY16 61%, FY17 97%, FY18 98%, FY19 99%, and FY20 100% with these accumulating shares applied to the estimated credit reduction above to estimate what the limitation of the credit is likely to generate in each fiscal year of the fiscal note horizon.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(F)(2) >= $500,000 Rev. Red. to State {H & S}
		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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