



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 624** HLS 15RS 1239
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 4, 2015 3:47 PM	Author: JACKSON
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Reduce S-Corp and Dividends Exclusion	

TAX/CORP INCOME OR +\$63,000,000 GF RV See Note Page 1 of 1
 Reduces the amount of certain corporate income tax exclusions and deductions

Current law allows an exclusion from gross income to S-corporations that flow through income to shareholders. The tax liability is then shifted to the personal income tax rather than the corporate income tax. Current law also allows an exclusion for dividend income received by any corporation.

Proposed law reduces these exclusions by 20%.

Effective July 1, 2015.

EXPENDITURES	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>5 -YEAR TOTAL</u>
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>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$63,000,000	\$111,000,000	\$116,000,000	\$116,000,000	\$116,000,000	\$522,000,000
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$63,000,000	\$111,000,000	\$116,000,000	\$116,000,000	\$116,000,000	\$522,000,000

EXPENDITURE EXPLANATION

The Department of Revenue (LDR) will incur costs for computer system modification and testing, tax form redesign, and tax payer inquiries. These costs are typically small for individual tax law changes (likely to be several thousands of dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.


REVENUE EXPLANATION

Based on corporate tax returns received in FY14, the S-corp exclusion reduced corporate income tax receipts by \$524 million. The Revenue Department recalculated FY14 returns with a 20% reduction in this exclusion, resulting in \$107 million of higher estimated tax receipts. About 54% of this amount was attributable to 2013 tax year returns (the first tax period immediately preceding the fiscal year), and 42% was attributable to 2012 tax year returns (two tax periods preceding the fiscal year). The balance of 4% was attributable to earlier tax period returns, and is assumed here to entirely affect the third fiscal year of implementation of this bill.

The reduction in the dividend income exclusion was estimated based on 2012 tax year returns of the top 200 corporate filers. The additional tax estimated with a 20% reduction in the exclusion was some \$9 million. The same 54%/42%/4% distribution of tax year returns was assumed for this component of the bill, as well.

The final result of these recalculations and return distribution are revenue gains of \$63 million in FY16, \$111 million in FY17, and \$116 million in FY18 and beyond.

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| Senate | <u>Dual Referral Rules</u> | House |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S} |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | |


John D. Carpenter
 Legislative Fiscal Officer