LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 723** HLS 15RS 1266
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 4, 2015 3:57 PM
Author: BURRELL
Dept./Agy.: Revenue
Subject: Reduces Selected Tax Credits
Analyst: Greg Albrecht

TAX CREDITS OR +$7,000,000 GF RV See Note
Reduces certain income and corporation franchise tax credits

Proposed law reduces a variety of tax credits by 20% each. The affected credits are for: employee and dependent health insurance coverage, certain disabilities, certain federal credits, fuel taxes paid by commercial fishermen, per child educational expenses, contributions to family responsibility programs, purchases of certain environmental equipment, rural doctors and dentists, bone marrow donation expenses, law enforcement college expenses, purchases of bulletproof vests, long-term care insurance, living organ donation, home modifications for disabilities, care for the physically or mentally incapable, certain child care expenses with federal credit, historic rehabilitation of residential structures, business supported child care expenses, enterprise zone and urban revitalization credits. These credits are taken against the personal and corporate income tax and the franchise tax.

The bill is 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.	$7,000,000	$9,800,000	$12,600,000	$15,400,000	$18,200,000	**$63,000,000**
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	**$7,000,000**	**$9,800,000**	**$12,600,000**	**$15,400,000**	**$18,200,000**	**$63,000,000**

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 (typically a few thousand dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided. However, this bill changes a variety of credits, and system modification costs will be consequently greater.

REVENUE EXPLANATION

Based on recent claims reported in the Department of Revenue FY14 Tax Exemption Budget (TEB), a 20% reduction in the credits modified by this bill amounts to approximately $18.2 million. A number of the affected credits have very small or no recent claims, with the bulk of the estimate associated with the Enterprise Zone program, the $25 per child educational expenses credit, and a state child care expense credit connected to a federal child care credit.

The bill is effective July 1, 2015 and does not specify tax years of applicability. The fiscal note assumes that all tax periods starting on or after July 1, 2015 will be affected. Since the fiscal year values reflected in the TEB are the result of numerous tax period returns received in a fiscal year, the first year effect of this bill is likely to be small because it is typical for only a small portion of the returns received in any fiscal year, involving business income and credits, to be attributable to the immediately preceding tax year. The second fiscal year effect is larger because two preceding tax years of returns will have been affected by the bill's credit reduction. The fiscal year effect ramps over time as more and more of the returns received in a fiscal year are from tax periods affected by the credit reduction. In the case of this bill, a substantial portion of the total fiscal effect is associated with two child care credits that are claimed on personal income tax returns. Those returns are likely to be largely filed in the year immediately following the tax year of change.

Pending analysis by the Department of Revenue detailing the distribution of tax year returns in fiscal year filings for each of the business credits affected by the bill, the fiscal note assumes an even four year ramp up of effect of those credits, but an immediate effect for the child care credits. Assuming that the first tax years affected are those beginning on or after July 1, 2015, the effect in FY16 results from the child care credits. The effects in FY17 and beyond reflect the assumed ramp up of the balance of the bill.

Senate — Dual Referral Rules — House

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 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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