LEGISLATIVE FISCAL OFFICE
Fiscal Note

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

Date: June 15, 2015 4:17 PM
Author: STOKES
Dept./Agy.: Revenue
Subject: Eligibility For Credit For Tax Paid To Other States
Analyst: Greg Albrecht

TAX/INCOME TAX EN +$34,000,000 GF RV See Note
Adds requirements for eligibility for the income tax credit for taxes paid in other states

Prior 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 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 all claims on any return filed on or after July 1, 2015, regardless of the taxable year to which the return relates. However, credits denied on returns filed after July 1, 2015 pursuant to an extension allowed prior to July 1, 2015 can be recouped in one-third increments over three subsequent years, starting with tax years beginning in calendar year 2017. Not applicable to amended returns timely filed after July 1, 2015, relating to original returns filed prior to July 1, 2015 and properly claimed a credit. Expires July 1, 2018.

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.	$34,000,000	$34,000,000	$27,800,000	$0	$0	**$95,800,000**
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	**$34,000,000**	**$34,000,000**	**$27,800,000**	**$0**	**$0**	**$95,800,000**

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 limits the amount of tax credit allowed against Louisiana tax liabilities from its limitation of the credit amount to 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.

This immediate effect on net state revenue receipts occurs as a result of the applicability of the bill's provisions to all claims on any return filed on or after July 1, 2015, regardless of the taxable year to which the return relates.

Credits denied on returns filed in FY16 pursuant to an extension can be recouped on returns filed for tax years beginning in calendar years 2017, 2018, and 2019. These returns will be filed in the spring each year affecting FY18, FY19, and FY20; reducing the revenue generated in those periods. This effect is acknowledged by applying a factor that reflects the three-year average share of total personal income tax credits on returns received in a fiscal year attributable to tax periods earlier than the immediately preceding tax period. For personal income tax returns this factor is 55%. Thus, full revenue gains are realized in FY16 and FY17, before being reduced in FY18 by one-third of 55% of the FY16 revenue generated by the bill, or $6.2 million. However, both the credit limitation and the recoupment provisions of the bill expire at the end of FY18. Thus, the bill generates no revenue in FY19 and FY20, nor does it allow for the second and third years of recoupment of credits denied during FY16 related to returns filed under extension.

Amended returns, timely filed after July 1, 2015 relating to original returns filed prior to July 1, 2015 that properly claimed a credit are assumed to not effect the potential revenue generated by the bill. The original returns would have already received the benefit of any credit. Presumably, the amended filing would be for reasons unrelated to the properly claimed and received credit.

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)(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}

John D. Carpenter
Legislative Fiscal Officer