LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 74** HLS 161ES 22
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: February 22, 2016 10:17 AM
Author: MORRIS, JAY
Dept./Agy.: Revenue
Subject: Corporate Taxation Combined Reporting
Analyst: Greg Albrecht

TAX/CORP INCOME OR INCREASE GF RV See Note

Provides for methods of determining income subject to the corporation income tax (Item #5)

Current law allows separate entity accounting for corporate taxation.

Proposed law mandates that corporate tax returns be filed on a unitary basis for businesses that make up a single economic enterprise of entities that are interdependent, integrated, and interrelated through their activities. Provides for the determination of taxable income or loss in the combined report and the share to be apportioned to the the state.

Effective for taxable years beginning on or after January 1, 2017.

EXPENDITURES	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**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	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	INCREASE	INCREASE	INCREASE	INCREASE	**$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**

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, and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided. However, this is a major change to corporate taxation that will likely require additional expenses associated with staff/auditor training, taxpayer outreach and support to facilitate compliance.

REVENUE EXPLANATION

The bill requires a different approach to state corporate taxation than has historically been the case for most firms operating in the state; the effects of which can not be reasonably quantified in advance. The Department of Revenue examined the estimates of such a change in two states that shifted to combined reporting relatively recently (Massachusetts enacted 2008 and Wisconsin enacted 2009), as well as 2009 report by the Center on Budget and Policy Priorities that looked across multiple states. Both states expected increases in tax collections in the range of 14%, and the multi-state report indicated an increase range of 10% - 25%. However, all three examinations provide little basis for an estimate of dollar effect of such a change in Louisiana, as to either magnitude or timing. Both individual states utilized fairly dated information at the time of their estimates, and experienced various other simultaneous events; such as an across the board tax rate cut in Massachusetts and the effects of the 08/09 national economic recession and its aftermath. In addition, wide differences in industry structure across states (Louisiana is much more oil & gas concentrated than many other states) make extrapolations from other states highly uncertain, and Louisiana has its own distorting event of successive tax amnesties.

It is likely though that some net increase in tax collections would occur. Separate entity accounting facilitates tax strategies that shift income out of the state and shift costs into the state, effectively reducing taxable net income. Combined reporting works against those strategies; although, nothing eliminates those strategies altogether. The magnitude and timing of any increase in collections is highly uncertain. The bill itself is not effective until tax periods beginning in 2017. Thus, no additional collections can be expected in FY17, and even FY18 would likely be a transition year as firms come up to speed on complying with a largely different taxing approach in this state.

While aggregate net collections are likely to increase, it is also likely that some firms will experience decreases in tax liabilities and others increases relative to what they would experience under the current separate entity approach. These differences across firms and industries add to the uncertainty of the net effect of a change to combined reporting.

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

John D. Carpenter
Legislative Fiscal Officer