

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 6** HLS 162ES 33
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

| | |
|--|-------------------------------|
| Date: June 6, 2016 7:57 PM | Author: LEGER |
| Dept./Agy.: Revenue | Analyst: Greg Albrecht |
| Subject: Corporate Income and Franchise Tax | |

TAX/INCOME TAX OR +\$3,300,000 GF RV See Note Page 1 of 1

Provides with respect to the applicability and effectiveness of Act No. 8 from the 2016 First Extraordinary Session of the legislature which established a flat rate for purposes of calculating corporation income tax liability (Item #38)

Present law proposes to change the five-tiered rate and bracket structure of corporate income tax to a single 6.5% tax rate on corporate net income. This change is to be effective for all tax years beginning on or after January 1, 2017, if the proposed amendment to Article VII of the Constitution contained in the Act which originated as HB 31 of the 2016 First E. S. is adopted at the statewide election to be held on November 8, 2016. HB 31 became Act 31 of 2016ES1 and removes the constitutional requirement for a deduction of federal income taxes paid from the calculation of the corporate income tax base. Act 30 of 2016 ES1 removes the deduction statutorily and is contingent upon adoption of Act 31.

Proposed law shifts the implementation of the single 6.5% tax rate back by one year, to tax years beginning on and after January 1, 2018, consistent with proposals in this session to delay the removal of the constitutional and statutory federal tax deduction for corporate tax calculations.

| 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 | <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 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 5 -YEAR TOTAL |
|---------------------|----------------|----------------|--------------------|---------------------|---------------------|----------------------|
| State Gen. Fd. | \$0 | \$0 | \$3,300,000 | \$28,500,000 | \$30,000,000 | \$61,800,000 |
| 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 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | \$0 |
| Annual Total | \$0 | \$0 | \$3,300,000 | \$28,500,000 | \$30,000,000 | \$61,800,000 |

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The Department of Revenue recalculated tax table income tax liabilities of returns filed in FY14 under a 6.5% flat tax rate, generating \$86 million of lower tax liability than under the current five-tiered rate and bracket structure. However, this rate and bracket change is contingent upon adoption of a constitutional amendment (in Act 31) eliminating the requirement for the deductibility of federal taxes paid for corporate tax filers, and is also contingent upon the effectiveness of Act 30 that statutorily implements the elimination of federal deductibility.

Thus, the flat tax rate provided by this bill will be applied to corporate taxable income without a federal income tax deduction. Tax liabilities for the simulation of returns received in FY14 under these combined conditions results in some \$30 million more tax liability than under the current law corporate rate and base structure. These liability increases would be realized over a roughly three year period starting in FY19.

It should be noted that this estimate is based on a recalculation of a single year's tax returns. The fundamental volatility of corporate tax make it unlikely that a single year's result is indicative of other particular years.

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

John D. Carpenter
Legislative Fiscal Officer