LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 34** HLS 162ES 26
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 7, 2016 9:17 AM **Author:** JACKSON
Dept./Agy.: Revenue
Subject: Reduces Corporate Income Tax Exclusions and Deductions **Analyst:** Greg Albrecht

TAX/CORP INCOME OR +$35,600,000 GF RV See Note
Reduces the amount of certain corporate income tax exclusions and deductions (Item #37)

Present law allows exclusions and deductions from corporate gross income for a variety of situations. These exclusions and deductions were reduced by 28% by Act 123 of 2015RS, and modified by Acts 1 and 6 of 2016ES1. The affected exclusions and deductions are: public transportation corporations, oil and gas well allowance for depletion, net operating losses, corporate income tax refunds, certain expenses disallowed for federal taxation, dividend income, and hurricane recovery benefits. The tax-exempt period for La Community Dev. Fin. Insts. (LCDFI)was shortened from five years to four years. Applicable to any return filed on or after July 1, 2015. Special recoupment provisions were made for returns under extension, and for amended return filings. Expires July 1, 2018.
Proposed law reduces these exclusions and deductions by another 22%, or a total of 50% from the allowances prior to Act 123 of 2015RS. The LCDFI tax exempt period is reduced to 3 years. Applicable to returns filed for any tax year beginning on or after January 1, 2016, for tax years 2016, 2017, and 2018. Expires July 1, 2018.

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

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	$35,600,000	$71,300,000	$35,600,000	$0	$0	**$142,500,000**
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	**$35,600,000**	**$71,300,000**	**$35,600,000**	**$0**	**$0**	**$142,500,000**

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. This is the third significant change to various tax provisions in a year, and absorbed administrative costs likely result in the supplanting or delay of other functions/activities of the department.

REVENUE EXPLANATION

Many exclusions and deductions have no reporting requirements in the corporate tax provisions, or the Department of Revenue has not routinely captured data associated with them. With respect to the reductions imposed by Act 123 of 2015RS, the Department was able to recalculate corporate returns filed during FY14 claiming the net operating loss deduction, as well as deductions for dividends, depletion allowance, and I.R.C. 280(C) disallowed expenses for selected returns in the top 200 returns of the 2012 tax year, applying the original bill reduction of 20%. The enrolled bill ultimately applied a 28% reduction, and the original estimates were simply scaled up accordingly, resulting in a tax liability increase estimate of $122 million ($105 million from the NOL deduction and $17 million from the other quantifiable deductions). Additional revenue gains based on a 50% reduction, relative to the 28% reductions already in place, are estimated to total some $71.3 million ($55 million from the NOL deduction and $16.3 million from the other quantifiable deductions).

In addition, since the bill appears to be effective for at least tax periods 2016 and 2017, the varying filing timing patterns that occur are material for fiscal year receipts. These timing patterns were proxied by assuming that 50% of corporate tax returns claiming these deductions in a fiscal year were associated with the immediately preceding tax year; then the 50% balance of returns are filed during the next fiscal year. This analysis results in additional tax receipts totaling some $35.6 million in FY17 and $71.3 million in FY18. A trailing effect of $35.6 million occurs in FY19 as the 50% lag of returns also occurs in the second year of implementation.

In addition, the bill also appears to be applicable to tax year 2018, within which the current law 28% reductions expire. Thus, full 50% reduction effects may occur for some portion of the fiscal note horizon but, as of the time of this writing, insufficient time was available to develop estimates incorporating that extra year into the fiscal estimates above.

The estimates are particularly sensitive to the assumptions regarding the timing of return filings as well as to unique considerations of particular deductions. This bill significantly reduces deductions one year after the previous significant reduction to these deductions. Return filings and deduction claims were distorted by the previous reduction of Act 123 of 2015 RS. The true baseline of deductions is highly uncertain. In addition, corporate tax collections have been extremely weak, reflecting underlying economic conditions and recent tax amnesties. Consequently, estimates of corporate tax changes are made with a very low degree of confidence.

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}

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