LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 32** HLS 162ES 43
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: June 7, 2016 9:35 AM
Author: MONTOUCET
Dept./Agy.: Revenue
Subject: Reduce Certain Credits
Analyst: Greg Albrecht

TAX CREDITS OR +$4,300,000 GF RV See Note
Reduces the amount of certain income and corporation franchise tax credits (Item #36)

Present law (Act 125 of 2015RS) reduced a wide variety of tax credits to 72% of their value prior to Act 125. The current reduction is effective through June 30, 2018.

Proposed law reduces many of these same credits to 50% of their value prior to Act 125. This additional reduction is effective permanently.

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.	$4,300,000	$15,800,000	$13,400,000	INCREASE	INCREASE	**$33,500,000**
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	**$4,300,000**	**$15,800,000**	**$13,400,000**			**$33,500,000**

EXPENDITURE EXPLANATION

The Department of Revenue will incur costs associated with preparing tax systems for the numerous changes in this bill, as well as changes in tax instructions and taxpayer inquiries. These costs may be several tens of thousand dollars of staff time for modifications and testing. These costs are typically absorbed within the existing agency budget, but ultimately contribute to the supplanting/delaying of other functions/activities.

REVENUE EXPLANATION

The Department of Revenue estimated the potential impact of this bill starting from the full value of the affected credits in FY14, prior to the changes made in 2015. The 2014 values were re-based to 2016 with a 3% per year growth factor, then a 50% reduction to the full credit value was applied. Since the bill appears is applicable to multiple to tax periods, including 2016 and 2017, the varying filing timing patterns that occur are material for fiscal year receipts. These timing patterns were proxied by assuming that 75% of individual income tax returns claiming these credits in a fiscal year were associated with the immediately preceding tax year; then the 25% balance of returns are filed during the next fiscal year. A 50% factor was assumed for corporate returns claiming these credits. The resulting 50% reduction result was then compared to the already anticipated 28% reduction in current law through FY18. This analysis resulted in additional credit reductions totaling some $4.3 million in FY17 and $15.8 million in FY18. A trailing effect of $13.4 million occurs in FY19 as the 25% and 50% lag of returns also occurs in the second year of implementation.

In addition, the bill appears to be permanently applicable to tax years beyond the current law expirations of 28% credit reductions 2018. Thus, full 50% reduction effects would occur for the out-years of the fiscal note horizon but, at the time of this writing, insufficient time was available to develop estimates incorporating those extra effects in 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 credits. This bill significantly reduces credits one year after the previous significant reduction to these credits. Return filings and credit claims were distorted by the previous reduction of Act 125 of 2015 RS, and Act 23 of 2016 ES1 changed the priority order of utilization of credits against liabilities. The true baseline of credits 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}

John D. Carpenter
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