



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 361** HLS 17RS 998
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 25, 2017 3:06 PM	Author: IVEY
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Repeal Corporate Franchise Tax	

TAX/CORP FRANCHISE OR -\$416,000,000 GF RV See Note Page 1 of 1
 Repeals the corporation franchise tax beginning January 1, 2018

Proposed law repeals the corporate franchise tax for all taxable years beginning on and after January 1, 2018.
 Effective on January 1, 2018.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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						
REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	(\$45,800,000)	(\$395,200,000)	(\$416,000,000)	(\$416,000,000)	(\$416,000,000)	(\$1,689,000,000)
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	(\$45,800,000)	(\$395,200,000)	(\$416,000,000)	(\$416,000,000)	(\$416,000,000)	(\$1,689,000,000)

EXPENDITURE EXPLANATION

Tax system changes will have to be made to provide for the repeal of tax liability. These changes are typically estimated as several tens of thousands of dollars of staff time for design, modification, and testing (\$51,000 in this case). Additional resources may be needed by the Dept. depending in the cumulative number of changes enacted.

REVENUE EXPLANATION

The base of the estimated revenue repeal was established by the Dept. of Revenue as the 3-year average of franchise tax liabilities after nonrefundable credits for tax years 2012-2014, the most current complete filing years; some \$327 million per year. To that base is added the estimated liabilities of extending the franchise tax to organizations other than traditional C-corporations enacted by Act 12 of 2016 ES1. Total base liabilities for the franchise tax is \$416 million per year. Liability reductions are first realized in FY18 because the franchise tax is due at the beginning of the tax year, and the bill repeals the tax for the 2018 tax year.

This simple repeal is complicated by the fact that in any particular fiscal year returns are filed for a number of prior tax years. Past filing patterns suggest that within a fiscal year, 11% of returns apply to the immediate tax year, 84% to the preceding tax year, and 5% from earlier tax years. Incorporating this pattern into the repeal timing, results in a first year liability reduction of \$45.8M (\$416M x 11%). The second year reduction will include an 84% filing factor applied to the first year's full annual repeal amount plus the second year's full annual repeal amount and an 11% filing factor, resulting in a \$395.2M liability reduction. The third year reduction will include a 5% filing factor applied to the first year's full annual repeal amount plus an 84% filing factor applied to the second year's full annual repeal amount plus the third year's full annual repeal amount with a 11% filing factor, resulting in a \$416M liability reduction. This pattern accumulates the tax year liability reductions realized in fiscal years over a three year period before the full amount of corporate franchise tax liabilities are realized in FY20.

Actual tax receipt reductions are further complicated by the carry-forward of corporate tax overpayments from prior years, which are still due to the taxpayer even if the tax is repealed. This carry-forward averaged \$387M over the 2012-2014 period. In addition, refundable tax credits and rebate payments charged against the franchise tax will continue to be refunded and paid as they will be shifted to the income tax. Thus, actual tax receipt changes in any particular fiscal year are likely to differ from those estimated above.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House
 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