LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 363** HLS 17RS 641
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 9, 2017 8:52 AM **Author:** IVEY
Dept./Agy.: Revenue
Subject: Net Operating Loss Deduction **Analyst:** Greg Albrecht

TAX/CORP INCOME OR +$14,500,000 GF RV See Note

Caps the amount of losses a taxpayer may claim on certain tax returns for the net operating loss deduction and repeals the deduction for certain wage expenses

Current law allows net operating losses to reduce net income by up to 72% of net income.

Proposed law limits the amount of net operating loss carryover based upon the taxpayer's total amount net operating loss available. The limited deduction ranges from 100% of taxable income if available losses are less than $10M, to 50% of taxable income if available losses are $250M or more.

Applicable to taxable years beginning on and after January 1, 2018.

EXPENDITURES	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**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	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**5 -YEAR TOTAL**
State Gen. Fd.	$7,000,000	$14,500,000	$14,500,000	$14,500,000	$14,500,000	**$65,000,000**
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	**$7,000,000**	**$14,500,000**	**$14,500,000**	**$14,500,000**	**$14,500,000**	**$65,000,000**

EXPENDITURE EXPLANATION

The Dept. of Revenue will incur costs associated with designing, modifying, and testing the tax processing system. These costs are typically estimated in the tens of thousands of dollars of staff time (in this case $26,000). An assessment of the cumulative need resulting from all legislation is made at the end of session which informs the budget request of the Dept.

REVENUE EXPLANATION

To estimate the effects of this bill, the Dept of Revenue (LDR) re-computed tax year 2015 corporate income tax returns for 5,900 taxpayers that claimed net operating loss deductions (NOL) under the conditions of the bill (limiting the amount of net operating loss carryover based upon the taxpayer's total amount net operating loss available). The aggregate result was a net increase in tax liabilities of $13.5M. The Dept reports that some taxpayers experience a decrease in liability (removing the 72% current law limit reduced their taxable income by more than the new limitations of this bill increased their taxable income) while other tax payers experience an increase in liability.

The bill also repeals a deduction allowed for I.R.C. 280 wage expenses for corporate return filers. The effect of this change is relatively minor; resulting in $800,000 - $1M of additional revenue.

Some of the estiamted revenue gain could be received in the second half of FY18 to the extent quarterly estimated payments are adjusted by taxpayers; maybe as much as $7M in FY18, then a step-up to full year amounts in FY19 and beyond. A first year effect from this kind of change in behavior is highly uncertain.

Caveats are warranted for estimates of changes in corporate tax liabilities. The underlying tax base of corporate profits is highly volatile from year to year. Estimates based on single year recalculations of returns are not necessarily indicative of results in any other year. In addition, corporate tax filers have a wide variety of tax strategies available to them minimize and offset increased tax liabilities in any particular year. Thus, while NOL limitations ultimately works to increase tax liabilities, estimates of receipts in any particular year are highly uncertain.

Senate — Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 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}

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