LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 648** HLS 17RS 300
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.: **w/ PROP HSE COMM AMD**
Sub. Bill For.:

Date: May 9, 2017 9:14 AM
Author: HAVARD
Dept./Agy.: Revenue
Subject: Louisiana Business Tax
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TAX/STATE OR INCREASE GF RV See Note

Levies the Louisiana Business Tax

Proposed law imposes a tax on business activity in Louisiana. For affected businesses, the new tax base is federal taxable income adjusted with various add-backs (including 50% of employee compensation) and various deductions of income and expenses, and apportioned to Louisiana with a 2-factor-based ratio of property and double-weighted sales (instate relative to total business-wide), with alternative apportionment methods for business in certain industries. The tax rate is 3% applied to the calculated tax base. The new tax would be in lieu of corporate income and franchise taxes. After the first two years of this new tax, corporate income & franchise tax credits earned prior to 12/31/17 can be claimed against this new tax in four equal installments, and all available net operating losses can be deducted, as well. By August 15, 2020 the REC is to determine if tax collections from this new tax are at least 25% larger than those from the corporate income & franchise tax. If they are, then the corporate income & franchise tax are fully repealed on September 1, 2020. Effective 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.	INCREASE	INCREASE	DECREASE	DECREASE	DECREASE	
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						

EXPENDITURE EXPLANATION

The implementation of a new tax with various new calculations will likely require significant administrative expense to design, program, and test the tax processing system. The Dept. of Revenue estimates $684,000 of such costs in the first year. In addition, the Dept. requests two additional tax specialist positions to administer the tax on an ongoing basis, with personnel costs of $139,416 per year. Given the large number of affected businesses and the complexity of the tax, it seems likely that additional personnel beyond this minimal level will likely be needed.

REVENUE EXPLANATION

To estimate the effects of this bill, the Dept of Revenue (LDR) re-computed tax year 2015 corporate income tax returns under the conditions of the bill for the first two years (no corporate income or franchise tax credits or net operating loss deductions allowed). The result was new tax liabilities of some $604M. Taking this new tax liability for the first tax year and then applying the corporate tax growth in the current official, results in $646M in 2019. From that aggregate new-tax liability was subtracted the current official forecast of the existing corporate income & franchise tax for FY18 and FY19; $452M and $483M, respectively. The net revenue effect being $152M for FY18 and $163M for FY19.

These returns were then re-computed under the conditions of the bill for the subsequent years (25% of corporate income or franchise tax credits allowed as well as available net operating loss deductions). The result was new tax liabilities of some $481M. Growing this calculation of new tax liability to tax year 2020 results in $514M, then $612M in 2021. Subtracting the current official forecast of the existing corporate income & franchise tax for FY20 and FY21; $575M and $637M, respectively, the net revenue effect for FY20 is <$61M> and for FY21 is <$25M>. No forecast is yet adopted for FY22 and beyond.

With a January 1, 2018 effective date and quarterly declaration payments required, initial tax payments would be due in the first half of 2018 (within the second half of FY18) from any entities whose estimated tax is expected to be at least $5,000. Applying the average share of the corporate income tax paid through declarations over the 2012-2015 period (53%) to the annual liability increase, and taking half of that amount, results in a potential $160M being paid within FY18. The tax then steps up toward full annual receipts in FY19 and beyond. However, income & franchise tax will not be due. Thus, basing this transition off of the net change results in $40M in FY18. While some additional tax receipts may be received in FY18, this is an entirely new tax and an expectation of any particular amount of receipts without any experience with the tax entails substantial uncertainty. In addition, the entire franchise tax liability is due in advance, and a smaller revenue gain could occur in FY18.

An additional complication is the consideration of overpayments of income & franchise tax from prior periods. This amounts has averaged $387M in recent years, and it is uncertain if taxpayers will claim refund of all or a portion of this amount due them should this new tax be paid in lieu of the income & franchise tax.

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}
[x] 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}

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