LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 80** HLS 17RS 509
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 10, 2017 11:57 AM
Author: HILFERTY
Dept./Agy.: Revenue
Subject: Phase Out Corporate Franchise Tax
Analyst: Greg Albrecht

TAX/CORP FRANCHISE EG -$416,000,000 GF RV See Note

Phases out the corporate franchise tax over a 10-year period

Proposed law phases out the corporate franchise tax evenly over a 10-year period, beginning with all franchise tax years beginning on and after January 1, 2018.

Effective upon governor's signature.

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.	($4,600,000)	($44,100,000)	($85,700,000)	($127,300,000)	($168,900,000)	**($430,600,000)**
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	**($4,600,000)**	**($44,100,000)**	**($85,700,000)**	**($127,300,000)**	**($168,900,000)**	**($430,600,000)**

EXPENDITURE EXPLANATION

Tax system changes will have to be made each year to provide for the changing tax liability calculation over the life of the phase-out. These changes are typically estimated as several tens of thousands of dollars of staff time for design, modification, and testing. In addition, a phase-out of the tax will likely result in some confusion among taxpayers regarding their tax liability for particular years, amended returns, and prior year overpayments. Additional costs will be incurred consulting with taxpayers as the phase-out progresses.

REVENUE EXPLANATION

The base of the estimated revenue phase-out 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 was 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 years affected by this bill are $416 million per year. The bill's 10-year even phase-out generates a simple schedule of liability reductions starting at 10% or $41.6 million in the first year, accumulating by that amount each year for ten years until the entire $416 million liability reduction is realized in FY27. Liability reductions are first realized in FY18 because the franchise tax is due at the beginning of the tax year, and the bill begins the phase-out with tax year 2018.

This simple phase-out 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 these factors into the phase-out schedule, results in a first year liability reduction of $4.6M ($416M x 10% x 11%). The second year reduction will include an 84% filing factor applied to the first year's 10% tax reduction plus the second year's 20% tax reduction and an 11% filing factor, resulting in a $44.1M liability reduction. The third year reduction will include a 5% filing factor applied to the first year's 10% reduction plus an 84% filing factor applied to the second year's 20% tax reduction plus the third year's 30% tax reduction with a 11% filing factor, resulting in a $85.7M liability reduction. This pattern accumulates the tax year liability reductions realized in fiscal years over a twelve year period before the full amount of corporate franchise tax liabilities are eliminated in FY29.

Actual tax receipt reductions are further complicated by the carry-forward of overpayments from prior years, which are still due to the taxpayer even if the tax is phased out. 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}
- [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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