LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 651** HLS 17RS 1372
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **W/ SEN FLOOR AMD**
Proposed Amd.:
Sub. Bill For.:

Date: June 6, 2017 11:49 AM
Author: BROADWATER
Dept./Agy.: Revenue
Subject: Repeal Tax Credit Reduction Sunset
Analyst: Greg Albrecht

TAX/CORP INCOME REF +$12,500,000 GF RV See Note
Provides relative to corporate income tax credits

Present law reduces numerous credits to the income and franchise taxes through June 30, 2018 by 28% (Act 125 of 2015 as amended by Act 29 of 2016 ES1). After which the credits return to their full 100% value.
Proposed law repeals the June 30, 2018 termination of most of the credit reductions on Act 125, making the reductions permanent. Restores the offset against income tax that insurance companies receive or premium tax remittances to 100% (from 72%). Also modifies the musical and theatrical production tax credit program by limiting the program total of tax credit issuance to $10 million per year starting July 1, 2017. If less than a $10 million annual issuance is granted in a year, the excess is added to the maximum amount allowed to be issued the following year. Other provisions within the program cap are also modified. No credits can be granted for applications received after June 30, 2025.

Effective upon governor's signature.

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.	$0	$12,500,000	$12,500,000	$12,500,000	$12,500,000	**$50,000,000**
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	**$0**	**$12,500,000**	**$12,500,000**	**$12,500,000**	**$12,500,000**	**$50,000,000**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The credit reductions of Act 125 were expected to generate from $31.5 million to $27.6 million per year over FY16 to FY18 before expiring in FY19 and beyond. This expectation was based on actual credit claims over a number of years prior to the effectiveness of the Act. The applicability of the Act to returns filed on or after July 1, 2015 rather than filed for particular tax years, as well as the temporary life of the Act likely distorted the behavior of taxpayers and has made income and franchise tax collections more uncertain, especially with regard to tax credits. The crdit reductions in the bill are now estimated to result in a net revenue gain of some $12.5 million. First effects of this bill would be realized in FY19. Not included in these estimates are the potential effects of changes to the priority of credits made in Act 23 of 2016 ES1, and the 3-year recoupment provisions of credits lost to taxpayers from 2014 tax year returns filed under extension in 2015. While permanent continuation of credit reductions will work to ultimately increase net tax receipts, the timing and magnitude of that effect is more uncertain than before Act 125 was enacted. Actual revenue gains may take some time to normalize as taxpayers incorporate the likely permanence of the credit reductions, and will likely differ from those estimated above.

Theatrical and musical production program is modified beginning with FY18, allowing a maximum of $10 million per year of tax credits to be issued by the Dept. of Economic Development (LED) to participating productions. According to LED, there is currently $7.3 million of tax credits pending to be finally certified and ultimately granted. Should these credits reach the stage of final certification during FY18, they would presumably be subject to the maximum provided by this bill and a remaining amount of $2.7 million could still be issued or carried over to FY19, making its maximum $12.7 million. According to the Dept. of Revenue, the total amount of credits realized against the state fisc has been $8.75 million in FY14, $13.4 million in FY15, and $5.3 million in FY16. These are credits associated with productions completing the program in prior years, and any outstanding credits already issued would presumably still be paid by the state.
Over time, the annual issuance amounts and annual claimed amounts should average to near the $10 million maximum issuance allowed in this bill. However, annual variation will occur as varying numbers of productions move through the program at varying speeds. Relative to current participation, the bill doesn't appear to constrain program costs below what might otherwise occur, although, there have been years in the past where more than $10 million was claimed.

Senate | Dual Referral Rules | House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}

☒ 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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