LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 13** HLS 182ES 49
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 28, 2018 2:14 PM **Author:** JACKSON
Dept./Agy.: Economic Development
Subject: Continue Reductions To Certain Corporate Deductions **Analyst:** Benjamin Vincent

TAX/CORP INCOME EG +$9,000,000 GF RV See Note

Reduces the amount of certain corporate income tax deductions and provides for continued effectiveness of reductions to certain corporate income tax deductions and exclusions (Item #16)

Present law reduces the allowable amount associated with a variety of corporate tax deductions and exclusions through June 30, 2018 (Act 123 of the 2015 Regular Session).

Proposed law replaces the June 30, 2018 sunset date for the reduced deduction/exclusion amounts with a sunset date of June 30, 2023, and provides minor increases to the percentages of allowable depletion deduction, effective for tax periods beginning on and after January 1, 2018.

Effective upon governor's signature.

EXPENDITURES	2018-19	2019-20	2020-21	2021-22	2022-23	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	2018-19	2019-20	2020-21	2021-22	2022-23	5 -YEAR TOTAL
State Gen. Fd.	$9,000,000	$9,000,000	$9,000,000	$9,000,000	$9,000,000	**$45,000,000**
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	**$9,000,000**	**$9,000,000**	**$9,000,000**	**$9,000,000**	**$9,000,000**	**$45,000,000**

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

The Dept. of Revenue has estimated the effect of continuing the deductions affected by this bill that are reported on tax returns in various ways. Exclusions are generally not reported and are omitted from these estimates. The latest effort involved examining the 100 largest returns based on tax liability before credits for the 2016 tax year. That examination concluded that $4.5 million of tax liability was attributable to the provisions of Act 123 of 2015. That amounted to 1.4% of the total tax liability of the 100 returns examined. That fraction was then multiplied to the total tax liability of all corporate filers to arrive at an estimate of $9 million of tax attributable to the reductions proposed by this bill to be continued through FY 2023.

Since the present law reductions are effective through FY18, the first year of effect resulting from this bill is FY19. The net operating loss deduction is unaffected by the bill since reductions to it were made permanent by Act 6 of 2016 ES1. Certain exclusions from income are not reported by taxpayers and not included in the estimated effect of this bill, while the minor increases to depletion allowances works to decrease tax receipts to a minor degree.

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, as are other components of corporate tax returns, making estimates based on single year recalculations and extrapolations of returns unreliable. 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 permanent reductions in various deductions and exclusions should ultimately work to increase tax liabilities, specific estimates of receipts in any particular year are highly unreliable.

The caveats above are exhibited in the significantly different estimates of continuation of these reductions in deductions from year to year. Analysis of continuation of these reductions based on tax returns from earlier tax years, the basis of estimates made in 2017, resulted in an estimate of some $16.5 million of increased aggregate state tax liabilities. Other methodologies have resulted in an estimate as low as $2 million.

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}

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