

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 263** HLS 19RS 753
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 30, 2019	4:12 PM	Author: STOKES
Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Corporate Income Tax		

TAX/CORP INCOME EG -\$274,000,000 GF RV See Note Page 1 of 1
 Levies a flat tax on corporations and eliminates the deduction for federal income taxes paid for purposes of computing corporate income taxes

Proposed law repeals the deduction for federal income taxes paid by corporations, and imposes a flat tax rate of 3.95%. Applicable to all tax years beginning on and after January 1, 2020.

Contingent upon adoption of the constitutional amendment contained in House Bill _____ of this session.

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	\$0	(\$123,000,000)	(\$260,000,000)	(\$274,000,000)	(\$274,000,000)	(\$931,000,000)
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	(\$123,000,000)	(\$260,000,000)	(\$274,000,000)	(\$274,000,000)	(\$931,000,000)

EXPENDITURE EXPLANATION

The Department of Revenue (LDR) will incur costs for computer system modification and testing, tax form redesign, and tax payer inquiries. These costs are estimated for this bill at some \$44,000 of staff time, and equipment and software updating.

REVENUE EXPLANATION

The Dept. of Revenue estimated the effect of this bill by recalculating 2016 tax year corporate returns (the latest year with complete filings) without allowing the federal income tax deduction. Aggregate taxable income was \$11 billion, against which a 3.95% tax rate was applied. Gross tax liability was \$417 million. This calculation was compared to gross tax actually reported for these returns of \$690 million, implying a \$274 million loss in aggregate liability.

The filing pattern of corporate income tax returns is such that a given fiscal year receives 45% of returns from the immediately preceding tax year, then 50% from the second preceding year, and 5% from the third preceding year. This ramps up the fiscal year dollar effect of the bill from a \$123 million loss in FY21 (\$274M x 45% of 2020 returns). The FY22 loss is \$260 million (\$274M x 50% of 2020 returns) + (\$274M x 45% of 2021 returns). The loss for FY23 and beyond adds in the last 5% of returns, with a 100% effect.

Actual annual revenue losses can differ from these estimates materially due to the inherent volatility of the corporate tax base, and due to the claiming of credit carry-forwards. Overpayments of tax in prior years are often carry-forward by corporate taxpayers to be credited against subsequent tax liabilities. For the 2016 tax year some \$278 million of these overpayments existed. It is uncertain as to how taxpayers will treat these carry-forwards to the extent they experience changed liabilities as result of this bill (some taxpayers will face reduced liabilities and some will face increased liabilities).

Thus, there is considerable uncertainty as to level of annual tax receipt changes resulting from the bill.

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}

John D. Carpenter
Legislative Fiscal Officer