

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 6** SLS 201ES 1
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: June 5, 2020 8:40 AM	Author: ALLAIN
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Suspend Corporate Franchise Tax	

TAX/FRANCHISE/CORPORATE OR -\$7,500,000 GF RV See Note Page 1 of 1
 Provides for the suspension of the corporation franchise tax and initial corporation franchise tax for small business corporations. (Item #16) (gov sig)

Present law levies a franchise tax at the rate of \$1.50 per \$1,000 on the first \$300,000 of taxable capital, and \$3.00 per \$1,000 on taxable capital in excess of \$300,000. The tax is due on the first day of a taxpayers normal accounting period (calendar or fiscal), and payable in the fifth month after the tax is due.

Proposed law suspends the first tier of the tax (\$1.50 per \$1,000 on the first \$300,000 of taxable capital) for firms subject to the tax that have up to \$1,000,000 of taxable capital. The first-time initial tax (\$110) is also suspended. The suspension applies to franchise tax periods beginning between July 1, 2020 and June 30, 2021.

Effective upon governor's signature.

EXPENDITURES	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
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	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	(\$7,100,000)	(\$400,000)	\$0	\$0	\$0	(\$7,500,000)
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	(\$7,100,000)	(\$400,000)	\$0	\$0	\$0	(\$7,500,000)

EXPENDITURE EXPLANATION

The Department will incur relatively minor costs in FY21 and FY22 (\$51,000/year) of IT staff time to modify the tax processing system to incorporate the suspension and then reinstatement of the tax.

REVENUE EXPLANATION

The estimated effect of this bill is considered here in its entirety, without regard to HCR 66 Enrolled of the 2020 Regular Session, which suspended the first tier of tax as well, but on a smaller set of firms. That resolution results in \$5.8 million of revenue loss. Thus, the incremental effect of this bill (SB 6) is a \$1.7 million revenue loss.

The Department of Revenue looked to the 2017/2018 tax year returns (2017 corporate income tax year, 2018 corporate franchise tax year: filed on a combined return) as the most recent year of complete filings to estimate the effect of suspending the first tier of the franchise tax for firms with up to \$1,000,000 of taxable capital. The franchise tax associated with this first tier of tax, after all nonrefundable credits, was \$7.5 million. Refundable credits require no tax liability, and would still be refunded to taxpayers.

The tax is suspended based on the beginning of the franchise tax period for affected firms, while the estimated state fiscal year revenue losses occur based on the payable date. Most taxpayers are on a calendar year normal accounting period, while some taxpayers are on their own fiscal year normal accounting periods, making most due dates fall with FY21, but with some due dates fall within FY22. Thus, most of the state revenue loss will occur in FY21 (\$7.1 million), but some will occur in FY22 (\$400,000), as depicted in the table above, and based on the payment pattern of the 2017/2018 tax returns evaluated by the department.

An initial tax of \$110 is levied on every new entity subject to franchise tax. This initial tax would also be suspended for new entities during the suspension period, and would add to the estimated losses above. Typically, the initial tax generates approximately \$110,000 per year, assuming the typical number of new entities in 2021 as in past years (about 1,100).

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