



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **SB 175** SLS 21RS 141
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 19, 2021 4:53 PM	Author: ALLAIN
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Corporate Franchise Tax Rate	

TAX/FRANCHISE/CORPORATE OR -\$24,500,000 GF RV See Note Page 1 of 1
 Provides for a single rate of corporation franchise tax. (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 eliminates the \$1.50 tax tier, and imposes the \$3.00 per \$1,000 of taxable capital rate on taxable capital over \$500,000. A modification of the tax enacted in the 2020 first extraordinary session effective through June 30, 2021 is repealed.

Applicable to tax period beginning on or after January 1, 2022.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	(\$11,025,000)	(\$23,275,000)	(\$24,500,000)	(\$24,500,000)	(\$24,500,000)	(\$107,800,000)
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	(\$11,025,000)	(\$23,275,000)	(\$24,500,000)	(\$24,500,000)	(\$24,500,000)	(\$107,800,000)

EXPENDITURE EXPLANATION

The Department will incur \$26,000 of estimated costs of IT staff time to modify the tax processing system to implement the bill's tax rate and base change.

REVENUE EXPLANATION

The estimated effect of the bill is based on a recalculation by the Dept. of Revenue of 2018 tax year returns, the most current complete filing year, inclusive of the extension of the tax to LLCs, under the tax rate and base proposed by the bill versus the current law. The reduction in annual liabilities was \$24.5 million. Liability reductions are first realized in FY22 because the franchise tax is due at the beginning of the tax year, and the bill begins the phase-out with tax year 2022.

This simple recalculation of aggregate liability change 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 45% of franchise tax returns apply to the immediate tax year, 50% to the preceding tax year, and 5% from earlier tax years. Incorporating these factors results in a first fiscal year revenue reduction of \$11.025M (\$24.5M x 45%). The second fiscal year reduction will ramp up to \$23.275M (\$24.5M x 45% + \$24.5M x 50%). The third fiscal year reduction will ramp up to \$24.5M (\$24.5M x 45% + \$24.5M x 50% + \$24.5M x 5%). By the third fiscal year the transition to the lower tax levy stabilizes at the level of the annual tax year liability reduction.

Actual revenue 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 reduced or eliminated for certain firms. The Dept. hasn't indicated the distribution of overpayment carry-forwards, but some taxpayers with reduced or eliminated tax liabilities will likely claim their overpayment refunds as well as receive the bill's tax reduction. For the base tax year of 2018, the total franchise tax credit carry-forward was some \$189.5 million. Certain taxpayers will likely claim refunds for some portion of these carry-forwards in the following years, increasing the annual revenue reductions estimated above.

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. This, in combination with claims of refund carry-forwards, and the normal variability of the tax, means that actual tax receipt changes in any particular fiscal year can differ materially from those estimated above.

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}

Christopher A. Keaton
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