



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 506** HLS 21RS 929
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 24, 2021 8:48 AM	Author: BEAULLIEU
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Net Operating Loss Deduction	

TAX/INCOME TAX RE -\$20,300,000 GF RV See Note Page 1 of 1
 Increases the amount of the net operating loss deduction

Current law limits the utilization for a taxable year of net operating loss deductions to 72% of the net operating loss carryovers to the taxable year, with the deduction limited to 72% of Louisiana net income.

Proposed law increases the amount of net operating loss deduction to 80% of the net operating loss carryovers to the taxable year, with the deduction limited to 80% of Louisiana net income, for claims made between January 1, 2012 and December 31, 2023. For taxable years beginning on or after January 1, 2024, the deduction returns to 72%.

Applicable to tax years beginning on or after January 1, 2021.

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.	(\$3,700,000)	(\$18,300,000)	(\$20,300,000)	(\$16,600,000)	(\$2,000,000)	(\$60,900,000)
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	(\$3,700,000)	(\$18,300,000)	(\$20,300,000)	(\$16,600,000)	(\$2,000,000)	(\$60,900,000)

EXPENDITURE EXPLANATION

The Dept. of Revenue will incur some tax system modification costs to incorporate the change provided by this bill. Typically, these costs are reflected in several thousand dollars of IT staff time.

REVENUE EXPLANATION

The Dept. of Revenue recalculated 2018 corporate income tax returns that claimed net operating loss deduction under the bill's 80% deduction allowance versus the 72% allowance in current law. The difference of \$20.3 million reflects the revenue loss for a given tax year. This annual liability loss has to be translated to fiscal year effects recognizing the filing pattern of firms (18% in the immediate fiscal year, 72% by the second fiscal year, and 10% by the third fiscal year). This lagged effect accumulates the revenue loss over three fiscal years such that the revenue loss in FY22 is \$3.7 million, in FY23 \$18.3 million, and in FY24 and beyond \$20.3 million per year. The bill is first effective for tax year 2021; therefore, the first fiscal year of effect is FY22.

The bill also returns the deduction to the present law 72% beginning with tax year 2024 returns, with an annual tax year liability increase of \$20.3 million. This return of tax year liability, for each subsequent tax year, is realized over three fiscal years based on the filing pattern discussed above. In FY25, 18% of the tax year 2024 liability increase will be realized. In FY26, 72% of the 2024 liability increase plus 18% of the 2025 tax year liability. By FY27, 10% of the tax year 2024 liability increase plus 72% of the tax year 2025 liability increase plus 18% of the tax year 2026 liability increase. From FY27 and beyond, the annual tax receipts are unchanged from current law.

For informational purposes, the stock of net operating losses available for use is substantial and growing. Returns filed during FY18 had \$79.039 billion of losses available for use after utilizing \$1.875 billion of losses on those returns. Returns filed during FY19 had \$86.178 billion of losses available for use after utilizing \$2.513 billion of losses on those returns. Returns filed during FY20 had \$95.116 billion of losses available for use after utilizing \$3.570 billion of losses on those returns.

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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