Louisiana Legislative Fiscal Office

Fiscal Notes

LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 292** HLS 21RS 492

Bill Text Version: **ENGROSSED**

Opp. Chamb. Action: **w/ CONF COMM AMD**

Proposed Amd.:

Sub. Bill For.:

Date: June 9, 2021 4:07 PM

Author: RISER

Dept./Agy.: Revenue

Subject: Corporate Income Tax - Remove Federal Tax Paid Deduction

Analyst: Greg Albrecht

TAX/CORP INCOME EGC +$29,200,000 GF RV See Note

Repeals the income tax deduction for federal income taxes paid for purposes of calculating corporation income tax

Present law provides a deduction for federal income taxes paid for corporate income tax, and for a graduated five-rate corporate income tax rate and bracket structure: 4% up to $25,000 of net income, 5% on $25,000 - $50,000, 6% on $50,000 - $100,000, 7% on $100,000 - $200,000, and 8% on net income greater than $200,000.
Proposed law eliminates the federal income taxes paid deduction, and modifies the rate and bracket structure to a graduated four-rate structure: 3.5% up to $50,000 of net income, 5.5% on $50,000 - $150,000, 7.5% on net income greater than $150,000. Individual income tax rates are specified for flow-through entities.
Effective for tax periods beginning on and after January 1, 2022.

Contingent upon adoption of constitutional amendments contained in HB275 or SB159, as well as enactment of statutory companions HB278 and SB161 of this session.

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	$0	$0	$0	$0	$0	**$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.	$5,300,000	$26,300,000	$29,200,000	$29,200,000	$29,200,000	**$119,200,000**
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	**$5,300,000**	**$26,300,000**	**$29,200,000**	**$29,200,000**	**$29,200,000**	**$119,200,000**

EXPENDITURE EXPLANATION

Tax system changes will have to be made to incorporate the elimination of the deduction from the tax processing system. These changes are typically estimated as several thousands of dollars of staff time for design, modification, and testing. Costs are likely to be greater with respect to this bill due to the need to expedite these changes between the statweide election in October 2021 and the tax year 2022 effectiveness of the bill.

REVENUE EXPLANATION

The current estimate of the corporate income tax liability change resulting from the elimination of the deduction for federal taxes paid, combined with the bill's proposed rate and bracket structure, is calculated by the Dept of Revenue to result in a $29.2 million net increase in corporate income tax liabilities.

The fiscal year receipts effect of this liability change is complicated by the fact that in any particular fiscal year returns are filed for a number of prior tax years. Based on the filing pattern of the 2018 tax year returns, within a fiscal year, 18% of the corporate income tax returns for a particular tax year (2022 in this case) will be filed within the immediate fiscal year (2022 estimated payments), 72% within the second fiscal year (2023 returns & extensions), and 10% within the third fiscal year (2024 returns & extensions).

Incorporating these factors, results in a first fiscal year (FY22) revenue increase of $5.3M ($29.2M x 18%). The second fiscal year (FY23) increase will include a 72% filing factor applied to the first year's liability increase plus the second year's liability increase and a 18% filing factor, resulting in a $26.3M ($29.2M x 90%). The third fiscal year FY24) increase will include a 10% filing factor applied to the first year's liability increase plus a 72% filing factor applied to the second year's liability increase plus the third year's liability increase with a 18% filing factor, resulting in a $29.2M ($29.2M x 100%) revenue increase. This pattern accumulates the tax year liability increases realized in fiscal years over a three year period until the full amount of corporate income tax liability change is reflected in fiscal year revenue collections each year (FY24 - FY26).

The rate changes in this bill is contingent upon constitutional amendments (HB 274 or SB 159) and statutory companions that also broaden the individual and corporate income tax bases, and reduce the individual and corporate income tax rates (HB 292). From the aggregate state fiscal perspective, the individual income tax changes (HB 278) are closely revenue neutral. The combined corporate tax impact of this bill HB 292 (corporate income tax) and (SB 161, franchise tax) is also closely revenue neutral in FY22 -$2.2M and FY23 +$1.1M, and then becomes a net revenue decrease in each subsequent year; FY24 -$21.1M, FY25 -$26.7M, FY26 and beyond -$26.7M. Over the five-year fiscal note horizon, the two bills result in a $75.6M revenue decrease.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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