LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 437** HLS 23RS 869
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 14, 2023 4:25 PM
Author: NELSON
Dept./Agy.: REVENUE
Subject: Corporate Income Tax: Flat Rate
Analyst: Benjamin Vincent

TAX/CORP INCOME OR -$134,000,000 GF RV See Note
Provides for a flat rate for purposes of calculating the corporation income tax

Proposed law levies a flat corporate income tax rate of 5.0%.

Effective January 1, 2026, and applies to all taxable years beginning on or after January 1, 2026.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	SEE BELOW	SEE BELOW	$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**

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	($24,000,000)	($120,000,000)	($134,000,000)	**($278,000,000)**
Agy. Self-Gen.	$0	$0	$0	SEE BELOW	SEE BELOW	**$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**	**($24,000,000)**			**($24,000,000)**

EXPENDITURE EXPLANATION

LDR anticipates that implementation of proposed law will require additional expenditures for system modification, development and testing, and tax form modification. These changes are typically estimated as several thousands of dollars of staff time.

REVENUE EXPLANATION

Proposed law would apply a uniform 5.0% corporate income tax (CIT), thereby increasing the rate on taxable income below $50,000 from 3.5% to 5.0%, reducing the rate between $50,000 and $150,000 from 5.5% to 5.0%, and reducing the rate above $150,000 from 7.5% to 5.0%.

A rough approximation of the CIT liability (prior to credits) that would likely be foregone in a full year of impact is estimated by estimating effective rates by income range, as reported in the LDR Annual Report, and simulating returns under the proposed uniform rate. Note that this approximation is especially crude, as these figures represent revenues received in FY22, and reflect a mix of returns from Tax Years 2022 and prior years. As a result the mix includes returns from both before and after corporate tax rate and bracket reforms, and the elimination of deduction for federal taxes paid (FIT), were made effective in 2022. To incorporate the partial effect of FIT deductions impacting FY22 collections, an adjustment is made to estimated taxable income, using projected FY23 CIT losses due to the FIT deduction, as reported in the 2023 Tax Exemption Budget. Proposed rates are then applied to the estimated taxable income.

This exercise produces an estimated full-year revenue impact of approximately $134 million.

In a scenario where current-law Corporate Income and Franchise tax (CIFT) collections remain under $600 million total, proposed law would only impact general fund revenues. Impacts are reflected in the table above as general fund only, as currently-adopted REC CIFT projections remain under $600 million in the year where revenue impacts due to proposed law would initially be experienced. However, to the extent that CIFT collections would exceed $600 million under the current-law CIT, the revenue reduction would be shared between the general fund and the Revenue Stabilization Fund.

LDR has previously reported a typical corporate filing pattern in which 18% of liability changes occur in the immediate fiscal year, followed by 72% in the second fiscal year, and 10% in the third fiscal year. The phase-in of the full-year impact due to typical corporate filing patterns is reflected in the table above.

Senate — Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 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}

Deborah Vivien
Chief Economist