

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 154** HLS 23RS 1

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

| | | |
|---|---------|----------------------------------|
| Date: April 16, 2023 | 4:17 PM | Author: BEAULLIEU |
| Dept./Agy.: Revenue/Economic Development | | Analyst: Benjamin Vincent |
| Subject: Veteran-owned business income tax deduction | | |

TAX/INCOME TAX OR DECREASE GF RV See Note Page 1 of 1
Establishes an income tax exemption for certain veteran-owned businesses

Proposed law creates an income tax exemption for qualifying veteran-owned businesses to exempt up to \$50,000 of personal or corporate income annually. The exemption is available for four consecutive years and must initiate prior to tax year 2028. By extension, the exemption cannot be claimed after tax year 2032. Qualifying businesses are owned at least 51% by one or more veterans and certified through certain LA Economic Development programs. The business must also be registered in the state on or after 8/1/23 and not reorganized to evade taxes.

Effective with tax year 2024.

| 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 | \$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 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 5 -YEAR TOTAL |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| State Gen. Fd. | \$0 | DECREASE | DECREASE | DECREASE | DECREASE | \$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 |

EXPENDITURE EXPLANATION

LED will be required to certify annually that the business or owner has completed the LA Veteran Initiative certification or the Pathway to Assist Veteran Entrepreneurs by presumably presenting a list to LDR of identifiable certificate holders. LDR will incur expenses in changing the tax collection system and forms to accommodate the exemption. LDR may also require additional resources in verifying the business registration dates and history, depending on the number of claims and the aggregate impact of increased departmental duties resulting from all session action. These expenses are not expected to be material but may require additional resources after cumulative impacts of the session are considered.

REVENUE EXPLANATION

To the extent this exemption is claimed, state general fund revenue will decrease. LED reports that 84 veterans have completed the Pathways to Assist Veteran Entrepreneurs (PAVE) and 369 are currently certified under the Veteran Initiative Program, which requires annual certification renewal. Each exemption of \$50,000 will reduce the taxpayers liabilities by about \$1,550, assuming income taxes are filed as a business under the personal income tax with an average effective rate of 3.1%. The effective rate for filing under corporate income tax is more variable and difficult to predict. The highest corporate income tax rate is 7.5%, with most paid by a small number of high income corporations. The \$50,000 exemption at the highest corporate income tax rate is \$3,650 reduction in tax liability. In this bill, **with the small number of qualified applicants and not knowing how many may own a qualifying business or have available tax liability, the exposure to the state fisc appears minimal, likely a few hundred thousand dollars.**

The first exposure to the state fisc can occur in FY25 with tax year 2024 exemption and can extend to FY 32 with tax year 2031 filings. The timing of the exposure depends on the number and magnitude of claims as well as the taxpayer elections of the initiation date of the four consecutive years of claiming the exemption.

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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