Louisiana Legislative Fiscal Office Fiscal Notes

LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 19** SLS 23RS 157
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 23, 2023 3:51 PM
Author: ALLAIN
Dept./Agy.: Revenue
Subject: Personal Income Tax Exemption: Education Savings Accts
Analyst: Benjamin Vincent

TAX/INCOME/CORPORATE OR +$10,000,000 GF RV See Note
Eliminates the inventory tax credit for corporations and reduces the corporate income tax rates. (1/1/24)

Proposed law reduces the number of Corporate Income Tax (CIT) brackets from three to two, and reduces rates as follows:

	Existing Rate	Proposed Rate
$0-50K	3.5%	2.0%
$50-150K	5.5%	4.75%
$150K+	7.5%	4.75%

Proposed law additionally repeals the ability to claim the ad valorem tax credit for inventory or natural gas to corporate income or franchise taxes. Effective January 1, 2024, and applies to all taxable years beginning on or after that date.

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

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	$2,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000	**$42,000,000**
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	**$2,000,000**	**$10,000,000**	**$10,000,000**	**$10,000,000**	**$10,000,000**	**$42,000,000**

EXPENDITURE EXPLANATION

LDR reports that implementation of proposed law will require additional expenditures for system modification, development and testing, tax form modification, and certain processing equipment modifications and development. The change is estimated at $81,000 of staff time.

REVENUE EXPLANATION

Proposed law reduces state general fund revenues by reducing CIT rates, and offsets the reduction by limiting the applicability of the ad valorem tax credits for inventory and natural gas storage to individual income tax liabilities only.

Impact of Tax Rate Changes
An estimate of the impact of the rate reductions in a typical year is estimated based on CIT collections reported in FY22, and is then adjusted in proportion to REC projections for FY24, the bill's initial effective year. Proposed law is anticipated to reduce CIT collections by approximately $152 million due to changes in tax liabilities.

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. This results in a ramp-up of revenue impact in the bill's first three years: -$27 million in FY24, -$136 million in FY25, and -$152 million in FY26 and beyond.

Impact of Ad Valorem Tax Credit Changes
A material portion of ad valorem credits would be made unusable by proposed law due to inability to claim against corporate income or franchise tax. To the extent that credits become fully unusable, revenue collections will increase, offsetting the impact of tax rate reductions. The most recent and complete data based on tax returns (2020 returns) indicated that $266 million in total ad valorem credits applied toward either CIT or CFT liabilities. Depending on the size of the credit the taxpayer is eligible for, and depending on taxpayer participation in certain other incentive programs, a material portion of such credits are unused nonrefundable credits that are carried forward, and would not be made unusable by proposed law.

LDR estimates that approximately 61% of ad valorem credits will be made unusable, resulting in a revenue gain of approximately $162 million annually and offsetting the revenue reduction resulting from the rate changes. The typical three-year CIT ramp-up effects (18%/72%/10%) will result in a +$29 million in FY24, +$146 million in FY25, and +$162 million in FY26.

Net effects of the tax rate and ad valorem credit applicability changes for each year are reflected in the table above. Actual revenue loss from proposed law may differ materially from these estimates due to the volatility inherent in CIT collections.

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}
- [x] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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