



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **SB 1** SLS 23RS 37
 Bill Text Version: **ENROLLED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: June 6, 2023	2:12 PM	Author: ALLAIN
Dept./Agy.: Revenue		Analyst: Benjamin Vincent
Subject: Corporate Franchise Tax: Triggered Phase-down		

TAX/FRANCHISE/CORPORATE EN -\$163,000,000 GF RV See Note Page 1 of 2
 Phases-down the corporate franchise tax via triggers. (1/1/25)

Proposed law phases-in 25% reductions of Corporate Franchise (CFT) tax rates effective for every year following a year in which any monies were deposited into the Revenue Stabilization fund, provided the deposits were made due to collections of Corporate Income & Franchise tax (CIFT) collections in excess of \$600 million.

Applicable for taxable years beginning January 1, 2025 through December 31, 2031, and effective upon enactment and effectiveness of Senate Bill 6.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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						
REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	(\$159,000,000)	(\$163,000,000)	(\$163,000,000)	(\$485,000,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	(\$35,000,000)	(\$111,000,000)	\$0	\$0	\$0	(\$146,000,000)
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	(\$35,000,000)	(\$111,000,000)	(\$159,000,000)	(\$163,000,000)	(\$163,000,000)	(\$631,000,000)

EXPENDITURE EXPLANATION

LDR reports that implementation will require expenditures for system and form modification and testing. The additional required staff time is indeterminable, however typical workloads at the time of year following deposits to the Revenue Stabilization Fund may preclude forms and system updates being completed and taxpayer guidance being issued prior to January 1, 2025. LFO notes implementation issues that are unaddressed by the bill, including LDR notification of fund deposits. and taxpayer notifications of rate changes or Quality Jobs credit reductions associated with SB6.

REVENUE EXPLANATION

CFT Liability Impact: Proposed law makes 25% reductions to the CFT rate annually until the tax rate is zero, conditional on monies being deposited into the Revenue Stabilization Fund due to CIFT collections in the prior year. Such deposits are currently projected to occur annually in fiscal years 2024 and 2025. Using REC projections as a baseline, proposed law would thus reduce CFT rates in FY25 and FY26.

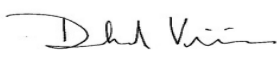
CFT liability change components of proposed law are anticipated to begin affecting revenue collections in FY24. CFT collections are typically spread over an approximately three-year period, with roughly 45% of CFT liabilities remitted in the year in which they are owed, 50% in the year following, and 5% in the second year following. This effect phases-in each annual rate reduction, resulting in a staggered effect. The estimated full-year impact of each 25% reduction to the tax liability component is an annual reduction of about \$45 million, which would be fully realized in third year of its effect.

Overpayments Carryforward Impact: LDR reports that approximately \$145 million of existing carryforwards of prior year overpayments with respect to CFT will be due to taxpayers as a refund upon repeal of the CFT, and will be claimed as the tax phases down. This effect is reflected in the table above as being split evenly by year, with an assumption of half of the credits (\$73 million) being claimed (matching the 50% reduction in CFT rate over the fiscal note horizon).

Tax Credits Impact: To the extent that taxpayers with CFT liabilities also incur income tax liabilities, proposed law would additionally result in credits that would otherwise apply against CFT liability being claimed against income tax liability. As CFT liabilities eventually reduce to an amount smaller than typically-claimed CFT credits, this would result in an estimated additional annual \$58 million in revenue reductions, following a similar ramp-up, and beginning in FY25.

As combined CIFT revenues that are above \$600 million are dedicated to the Revenue Stabilization Fund, and currently-adopted REC projections for CIFT are above that threshold in FY24 and FY25, this analysis assumes that the 25% reduction occurs twice. Thus the CFT liability reduction amounts to approximately \$90 million annually when fully phased-in, and the total revenue reduction including credits and carryforward of overpayments claims reaches \$163 million annually in FY27. LFO notes that in order to trigger an additional 25% CFT rate reduction in FY26, CIFT collections would have to exceed current REC projections by \$160 million. A breakdown of all effects is included on Page 2. **(continued)**

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|--|----------------------------|--|
| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H} | | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H} | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |


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Chief Economist



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CONTINUED EXPLANATION from page one:

Components contributing to total impacts on Page 1:

FY (\$millions)	24	25	26	27	28
CFT Liability Change	-20	-64	-88	-90	-90
Carryforward of Overpayments	-15	-15	-15	-15	-15
Credits	-0	-32	-56	-58	-58
Total	-35	-111	-159	-163	-163

Discussion: Potential Partial Offset of SB1 Revenue Impacts, Due to Contingency on Senate Bill 6

Proposed law is contingent on passage and effectiveness of Senate Bill 6. SB6 Re-Engrossed provides for a reduction in certain rebates under the Quality Jobs program in the event of a reduction of the CFT rate, which would serve to partially offset the revenue reductions caused by the phase-down of CFT rates to zero.

Offsets in SB6 Re-Engrossed will effectively phase in, and their ultimate timing and magnitude are very uncertain. For the purposes of discussing potential offsets to proposed law, and under several highly speculative assumptions, LFO anticipates that a full-year offset impact will ultimately amount to approximately 20% of the CFT liability reduction.

This partial offset for the first year's CFT rate reduction will likely not be realized fully until FY28. The reduction in rebate reductions will continue to phase in at the same time, implying that the full-year offset of 20% for the full CFT elimination may be fully realized in FY31.

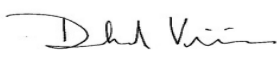
These assumptions would result in potential offsets due to combined provisions from proposed law and SB6 as follows: \$0 offset in FY24, \$4 million offset in FY25, \$17 million in FY26, \$20 million in FY27, and \$23 million in FY28.

Incorporating the potential impacts of SB6 Re-Engrossed with proposed law would result in estimated impacts as reflected in the table below.

FY (\$millions)	24	25	26	27	28
Potential Net Impact of SB1 & SB6	-35	-107	-142	-143	-140

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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