GREEN SHEET REDIGEST

HB 1 **2024 Third Extraordinary Session** **Emerson**

TAX/INCOME TAX: Provides for a flat rate for purposes of calculating income tax for individuals, estates, and trusts, increases the standard deduction, and modifies or repeals certain income tax deductions and credits (Item #5 and 6)

DIGEST

Present law provides for a tax to be assessed, levied, collected, and paid upon the taxable income of an individual at the following rates:

(1) 1.85% on the first $12,500 of net income.

(2) 3.5% on the next $37,500 of net income.

(3) 4.25% on net income in excess of $50,000.

Proposed law removes the graduated schedule of rates and brackets in favor of a flat 3% individual income tax rate.

Present law provides that in cases where taxpayers file a joint return of husband and wife, the combined tax shall be twice the combined tax of single filers.

Proposed law repeals present law.

Present law requires the automatic reduction in each individual income tax rate if, beginning Jan. 1, 2024, and each Jan. 1st thereafter through 2034, the prior fiscal year's actual individual income tax collections as reported in the state's accounting system exceed the actual individual income tax collections for the fiscal year ending June 30, 2019, adjusted annually by a growth factor. If the conditions in present law are met, individual income tax rates shall be reduced beginning the following January first. Further requires the reduced rate to be calculated by multiplying each current rate by the difference between one and the percentage change in individual income tax collections in excess of the individual income tax collections for Fiscal Year 2018-2019 adjusted annually by the growth factor as provided for in existing constitution.

Proposed law repeals present law.

Present law provides that all personal exemptions and deductions for dependents allowed in determining federal income tax liability shall be allowed in determining La. tax liability. Further provides for a combined personal exemption of $4,500 for single, individual filers; $9,000 for married, joint filers; $4,500 for married, separate filers; and $9,000 for filers who are the head of household.

Proposed law changes present law by increasing the combined personal exemption to $12,500 for single, individual and married, separate filers. Also increases the amount of the personal exemption to 200% of the dollar amount of the deduction for single filers for married, joint filers, qualified surviving spouses, and filers who are the head of household. Further requires the amount of these exemptions to be adjusted annually beginning Jan. 1, 2026, by an amount calculated by multiplying the amount of the prior year's standard deduction by percentage increase in the CPI for all urban consumers, as published by the U.S. Dept. of Labor, for the previous calendar year, as calculated by the secretary.

Present law authorizes a credit of $400 for each dependent who meets certain criteria and an additional deduction of $1,000 for each allowable exemption in excess of those required to qualify for the exemption allowable under present law (R.S. 47:294(A)).

Proposed law repeals present law.

Present law requires the secretary of the Dept. of Revenue to establish tax tables that calculate the tax owed by taxpayers based upon where their taxable income falls within a range that does not exceed $250. Proposed law removes requirement that the range not exceed $250.

Present law further requires the secretary to provide in the tax tables the combined personal exemption, standard deduction, and other exemption deductions in present law which are deducted from the 2% bracket. If the combined exemptions and deductions exceed the 2% bracket, the excess is deducted from the 4% bracket, and then the 6% bracket.

Proposed law repeals present law.

Present law authorizes an S corporation or entity taxed as a partnership for federal income tax purposes to elect to be taxed and to comply with requirements of present law as if the entity had been required to file an income tax return with the I.R.S. as a C corporation. S corporations that make this election shall not be eligible for the S corporation exclusion provided in present law. Further provides that the tax levied on the La. taxable income of every entity that makes this election shall be computed at the following rates:

(1) 1.85% on the first $25,000 of La. taxable income.

(2) 3.5% on La. taxable income above $25,000 but not in excess of $100,000.

(3) 4.25% on La. taxable income above $100,000.

Proposed law changes present law to remove the graduated schedule of rates and brackets in favor of a flat 3% income tax rate levied for individuals.

Present law exempts $6,000 of annual pension or annuity income received by an individual 65 years of age or older from state income taxation.

Proposed law increases the amount of annual pension or annuity income exempt from income taxation from $6,000 to $12,000 and further requires the amount of the exemption to be adjusted annually beginning Jan. 1, 2026, by an amount calculated by multiplying the amount of the prior year's exemption by the average annual increase in the CPI for all urban consumers, as published by the U.S. Dept. of Labor, for the previous calendar year, as calculated by the secretary.

Proposed law authorizes, beginning Jan. 1, 2025, a bonus depreciation deduction for qualified property or qualified improvement property and a bonus amortization deduction for research and experimental expenditures, at the election of the taxpayer, for costs of qualified property, qualified improvement property, and research and experimental expenditures. "Bonus depreciation" and "bonus amortization" mean methods to recover costs for expenditures in depreciable or amortizable business assets by immediately deducting the cost of the expenditures in the tax year in which the property is placed in service or the expenditure is paid or incurred.

Proposed law prohibits any depreciation claimed from duplicating any depreciation or bonus depreciation allowable on the federal income tax return of the taxpayer for the taxable year. Proposed law requires federal adjusted gross income to be increased by the amount of depreciation or amortization claimed under the Internal Revenue Code (IRC) for the qualified property, qualified improvement, and research and experimental expenditures for which bonus depreciation has been claimed for taxable periods subsequent to the tax year in which the election has been made. Prohibits proposed law from being construed to allow as an expense the excess of 100% of the cost of property or expenditures.

Present law authorizes a deduction, for purposes of calculating tax table income for resident and nonresident individuals, for income from net capital gains, which is limited to gains recognized and treated for federal income tax purposes as arising from the sale or exchange of an equity interest in or substantially all of the assets of certain businesses domiciled in La. The deduction is limited to sales or exchanges of equity interests in or assets of a nonpublicly traded business that the taxpayer has held for a minimum of five years immediately prior to the sale or exchange. The amount of the deduction is based on the amount of time the equity interest was held by the taxpayer. Present law requires the Dept. of Revenue to promulgate rules relative to the deduction in order to reduce administrative requirements for eligible taxpayers.

Proposed law repeals present law.

Present law establishes deductions from tax table income for a taxpayer who adopts a child who is in foster care or a youth receiving extended foster care services pursuant to the Extended Foster Care Program Act or who adopts an infant who is unrelated to the taxpayer and who is less than one year of age through a private agency or adopts an infant who is unrelated to the taxpayer and who is less than one year of age through an attorney. The amount of these deductions are $5,000 and shall be applicable in the year the adoption becomes final. Present law provides that these deductions are in lieu of the dependency deductions otherwise provided for in present law.

Proposed law retains present law as it relates to the deductions but repeals the limitation that these deductions are in lieu of the dependency deductions otherwise provided for in present law.

Present law provides for the computation of La. taxable income for a resident estate or trust, including provisions for the federal income tax deduction, limitations of deductions for net income, provisions for the federal deduction for alternative minimum tax, and the authority of the secretary of the Dept. of Revenue to consider reductions to the federal income tax deduction and the determination of the deductible portion of an alternative minimum tax.

Present law provides for a tax to be assessed, levied, collected, and paid on the La. taxable income of an estate or trust at the following rates:

(1) 2% on the first $10,000 of La. taxable income.

(2) 4% on the next $40,000 of La. taxable income.

(3) 6% on La. taxable income in excess of $50,000.

Proposed law removes the graduated schedule of rates in favor of a flat 3% rate on taxable income of an estate or trust.

Present law authorizes a nonrefundable income or franchise tax credit for businesses that hire participants in the work release programs established pursuant to present law. The amount of the credit shall be equal to 5% of the total wages paid to an eligible reentrant in an eligible job for 12 consecutive months following the release of the eligible reentrant from imprisonment. The total amount of tax credits granted to any eligible business shall not exceed $2,500 per eligible reentrant. Proposed law prohibits credits from being granted after June 30, 2027.

Proposed law retains present law but accelerates termination for granting credits from after June 30, 2027, to certifications requested after June 30, 2025.

Present law authorizes the Board of Commerce and Industry, with approval of the governor, to enter into exemption contracts with manufacturing establishments, headquarters, or warehousing and distribution establishments seeking such exemption if requirements of present law are met regarding the location of the entity seeking the exemption for tax equalization.

Proposed law prohibits the Board of Commerce and Industry from entering into any exemption contract on or after June 30, 2025, and prohibits the Board of Commerce and Industry from renegotiating or approving the renewal of an existing contract after June 30, 2025.

Present law provides a credit against La. income or corporation franchise tax for ad valorem taxes paid to political subdivisions on inventory held by manufacturers, distributors, and retailers and on natural gas held, used, or consumed in providing natural gas storage services or operating natural gas storage facilities.

Proposed law only allows the credit to offset individual income taxes for taxable periods beginning on or after July 1, 2026. However, any taxpayers using the credit to offset corporation income tax is allowed to carry forward any remaining credits for an additional ten years from the date that the credits would have expired under present law.

Present law provides a credit for motion picture productions in La. Present law provides an annual cap for the application of credits of $150M and an annual cap for the claiming of credits of $180M. Present law allows any unused cap amounts are allowed to rollover to the next year.

Proposed law changes both the annual cap for the application of credits and the annual cap for the claiming of credits to $125M. Proposed law also disallows the rollover of any unused cap to the next year for tax credits granted in a final certification letter after July 1, 2024.

Present law authorizes an income and corporation franchise tax credit for certain taxpayers who employ 50 or more persons and claim a federal income tax credit for increasing research activities. This tax credit is also available for taxpayers who employ fewer than 50 employees if the employer meets certain eligibility requirements.

Present law authorizes an additional tax credit for taxpayers who receive a federal Small Business Innovation Research (SBIR) grant or contract and Phase I or Phase II grants or contracts from the Federal Small Business Technology Transfer (SBTT) program equal to 30% of the award received during the tax year.

Present law prohibits tax credits for research expenditures incurred, SBTT Program funds received, or SBIR Grant funds received after Dec. 31, 2029.

Proposed law retains present law but provides that beginning July 1, 2025, no more than $12M of research and development tax credits may be claimed in each fiscal year. Proposed law also provides that claims for tax credits will be on a first-come, first-serve basis and any taxpayer whose claim for credits is disallowed because the fiscal cap has been reached may use the credits against state income tax the following year and receive priority over other claims filed after the original claim.

Present law authorizes a tax preference known commonly as the "rehabilitation of historic structures tax credit" which provides a credit against income and corporation franchise tax for the amount of eligible costs and expenses incurred during the rehabilitation of a historic structure that meets qualifications provided in present law. The amount of the credit shall equal 25% of the eligible costs and expenses of the rehabilitation incurred on or after Jan. 1, 2023, and before Jan. 1, 2029, regardless of the year the property is placed in service. For the rehabilitation of a historic structure located in a rural area, the amount of the credit shall equal 35% of the eligible costs and expenses of the rehabilitation incurred on or after Jan. 1, 2023, and before Jan. 1, 2029.

Present law prohibits the issuance of a credit for expenses incurred on or after Jan. 1, 2029.

Present law provides an annual application Part II reservation cap of $125M per year.

Proposed law retains present law but changes the annual application Part II reservation cap from $125M to $85M.

Present law establishes the Angel Investor Tax Credit program which authorizes a 25% income or corporate franchise tax credit on investments in La. small businesses that are certified by La. Economic Development as "Louisiana Entrepreneurial Businesses."

Present law limits the total amount of credits granted under the program to \$3.6M per year but authorizes the department to carry forward residual unused credits in any calendar year to subsequent calendar years without regard to the annual credit cap. Prohibits credits from being granted or reserved for applications received by the Dept. of Economic Development on or after July 1, 2030.

Proposed law retains present law but accelerates the termination date for granting or reserving credits from on or after July 1, 2030, to after June 30, 2025.

Present law authorizes a state income tax credit for investments made in state-certified sound recording productions until July 1, 2026. The tax credit is earned by investors at the time expenditures are certified by the Dept. of Economic Development (LED) according to the total base investment certified for the sound recording production company per calendar year. The aggregate amount of credits that can be certified each year is limited to \$2,160,000; however, 50% of the credits certified each year shall be reserved for qualified music companies (QMC).

Present law provides that the amount of the credit for each investor for state-certified productions received on or after July 1, 2017, is 18% of the base investment made by that investor in excess of \$25,000 or, if a resident of this state, in excess of \$10,000. Present law provides for the following additional tax credits for state-certified productions:

(1) QMC Tier 1 payroll credit of 10% for each new job with a salary of \$35,000 through \$66,000 per year.

(2) QMC Tier 2 payroll credit of 15% for each new job with a salary of \$66,000 but not more than \$200,000.

(3) Additional 10% increase in the base amount if the base investment is expended by a QMC on a sound recording of a resident copyright.

Proposed law prohibits credits from being allowed or granted for applications received on or after July 1, 2025. Otherwise retains present law.

Present law provides for the Enterprise Zone Program under which the Board of Commerce and Industry can enter into contracts after consultation with the secretary of LED and the secretary of the Dept. of Revenue with qualified applicants for rebates of state and local sales and use tax or a refundable investment income tax credit equal to 1.5% of the amount of qualified expenditures.

Present law prohibits LED from accepting new advance notifications for the Enterprise Zone Program on or after July 1, 2026.

Proposed law retains present law but changes the deadline for LED to accept new advance notifications from on or after July 1, 2026, to on or after July 1, 2025.

Present law authorizes an employer to earn and apply for a refundable credit on any income or corporation franchise tax liability in the amount approved by the secretary of LED for qualified expenditures incurred by the employer for a modernization pursuant to the Retention and Modernization Act. Further provides that for credits approved on and after July 1, 2017, the amount of the credit granted shall be 4% of the amount of qualified expenditures incurred by the employer for modernization with the credit divided in equal portions for five years. The total amount of modernization tax credits granted in any calendar year shall not exceed \$7.2M regardless of the year in which the credit is claimed.
A retention and modernization tax credit shall expire and have no value or effect on tax liability beginning with the eleventh tax year after the tax year in which it was originally granted.

Proposed law retains present law but adds a termination date for the credit by prohibiting credits from being issued for applications received after June 30, 2025.

Present law provides for the La. Quality Jobs Program under which LED can enter into contracts with qualified applicants for rebates of sales and use tax and an investment tax credit. Present law prohibits new advance notifications for the Quality Jobs Program to be accepted by LED after June 30, 2026.

Proposed law retains present law but changes the deadline for LED to accept new advance notifications for the Quality Jobs Program from after June 30, 2026, to after June 30, 2025.

Proposed law repeals the following income tax deductions and credits:

(1) Deduction for expenses disallowed by I.R.C. Section 280C. (R.S. 47:293(9)(a)(ix))

(2) Deduction for taxpayers or dependents who are deaf, blind, mentally incapacitated, or who have lost the use of one or more limbs. (R.S. 47:297(A))

(3) Tax credit for the elderly, a credit for contributions to candidates for public office, an investment credit, a credit for foreign tax, a work incentive credit, jobs credit, and residential energy credit. (R.S. 47:297(B))

(4) Tax credit for state gasoline, motor fuel, and special fuels taxes paid for the operation of a commercial fishing boat. (R.S. 47:297(C))

(5) Tax credit for educational expenses incurred before Jan. 1, 2017, for each child attending kindergarten, elementary, or secondary school through the 12th grade if the child qualifies as a dependency exemption on the taxpayer's La. tax return unless the deduction for the payment of tuition and fees for nonpublic elementary and secondary school tuition is taken for the child. (R.S. 47:297(D))

(6) Tax credit for purchases of environmental equipment purchased between July 1, 1989, and Dec. 31, 1991, designed to recover or recycle chlorofluorocarbons used as refrigerants in commercial, home, and automobile air-conditioning systems, refrigeration units, and industrial cooling applications. (R.S. 47:297(G))

(7) Tax credit for small-town health professionals such as a certified medical primary care physician, a primary care physician assistant, a dentist, an optometrist, or a primary care nurse practitioner. (R.S. 47:297(H))

(8) Tax credit for bone marrow donor expenses. (R.S. 47:297(I))

(9) Tax credit for educational expenses associated with attending college for a degree related to law enforcement. (R.S. 47:297(J))

(10) Tax credit for each taxpayer who provides full-time employment to an individual who has been convicted of a first time drug offense. (R.S. 47:297(K))

(11) Tax credit for purchases of bulletproof vests. (R.S. 47:297(L))

(12) Tax credit for long-term care insurance premiums. (R.S. 47:297(M))

(13) Tax credit for expenses incurred for travel or absence from work because of a living organ donation. (R.S. 47:297(N))

(14) Tax credit for employment of certain nonviolent offenders. (R.S. 47:297(O))

(15) Tax credit for the inclusion of accessible and barrier-free design elements in construction of a new one- or two-family dwelling or the renovation of an existing dwelling. (R.S. 47:297(P))

(16) Tax credit for employment related expenses for maintaining household for certain disabled dependents. (R.S. 47:297.2)

(17) Tax credit for the rehabilitation of an owner occupied residential or mixed-use property. (R.S. 47:297.6)

(18) Tax credit for the Citizen's property insurance assessment. (R.S. 47:297.7)

(19) Tax credit for amounts paid by certain military servicemembers for obtaining La. hunting and fishing licenses. (R.S. 47:297.9)

Proposed law shall be applicable to taxable periods beginning on and after Jan. 1, 2025.

Effective January 1, 2025.

(Amends R.S. 47:32(A), 44.1(A), 287.732.2(B), 287.750(I), 293(9)(a)(iv) and (10), 294, 295, 300.1, 300.3(3), 4302(B), 6006(A), (B)(1)(intro para), (2), and (4), (D), and (E), 6007(J)(1)(b)(i), (c), and (2)(a), 6015(M), 6019(A)(1)(e), 6020(H), and 6023(I) and R.S. 51:1787(L) and 2461; Adds R.S. 47:293(9)(a)(xxvi), 297.25, 300.6(B)(3), 300.7(C)(3), 3204(M), 6007(J)(1)(d), and 6016(M), and R.S. 51:2399.3(C); Repeals R.S. 47:32(B), 32.1, 79, 293(9)(a)(ix) and (xvii), 293.2, 297, 297.2, 297.6, 297.7, 297.9, 297.20(A)(2), 297.21(A)(2), and 6006(F), (G), and (H))

Summary of Amendments Adopted by House

The House Floor Amendments to the engrossed bill:

1. Provide that for purposes of calculating automatic income tax rate reductions, "base year revenues" means $12,155,100,000 as of Oct. 1, 2026. Further provides that when this base year revenue amount is adjusted in accordance with the CPI, this new amount becomes the new base year revenue amount for future base year revenue calculations and CPI adjustments.

2. Clarify how all CPI adjustments in proposed law are to be calculated.

3. Change the amount of the standard deduction for taxpayers with a tax return filing status of Married-Joint, Qualified Surviving Spouse, or Head of Household from $25,000 to 200% of the dollar amount provided for taxpayers with a tax return filing status of Single Individuals.

4. Prohibit tax credits for the rehabilitation of historic structures from being granted on applications for which Part I of the La. Commercial Rehabilitation Tax Credit program is received after June 30, 2025.

5. Make technical changes.

Summary of Amendments Adopted by Senate

Committee Amendments Proposed by Senate Committee on Revenue and Fiscal Affairs to the reengrossed bill

1. Repeals the individual income tax rate reduction triggers.

2. Maintains the inventory tax credit for individuals and pass-through entities but not C corporations.

3. Makes changes to the motion picture production tax credit, including lowering the fiscal year cap on both the application for motion picture production tax credits and the claiming of motion picture production tax credits to $125M.

4. Provides a $12M annual claim cap for the research and development tax credit program.

5. Amends the Application Part II reservation cap on the rehabilitation of historic structures tax credit from $125M per year to $85M per year.

6. Changes the effective date from upon signature of the governor to January 1, 2025.

7. Makes technical changes.

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