# LEGISLATIVE FISCAL OFFICE
## Fiscal Note

Fiscal Note On: **HB 178** HLS 13RS 622
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

**Date:** April 13, 2013 4:06 PM
**Author:** TALBOT
**Dept./Agy.:** Revnue
**Subject:** Repeal Corporate Income and Franchise Tax
**Analyst:** Greg Albrecht

TAX/INCOME TAX OR -$79,000,000 GF RV See Note 
Repeals corporation income and franchise taxes

Current law levies a tax on corporate net income of 4% of the first $25,000, 5% from $25,000 - $50,000, 6% from $50,000 - $100,000, 7% from $100,000 - $200,000, and 8% above $200,000. Corporate filers are allowed to deduct federal taxes paid when computing their state taxable income. A tax is also levied on taxable capital of 0.15% of the first $300,000 and 0.3% above $300,000.

Proposed law repeals both taxes entirely.

Effective January 1, 2014, for all tax years beginning on and after January 1, 2014.

| **EXPENDITURES** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **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 | $0 | $0 | $0 | $0 | $0 | **$0** |
| **Annual Total** | **$0** | **$0** | **$0** | **$0** | **$0** | **$0** |

| **REVENUES** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **5 -YEAR TOTAL** |
|---|---|---|---|---|---|---|
| State Gen. Fd. | ($79,000,000) | ($308,000,000) | ($325,000,000) | ($340,000,000) | ($340,000,000) | **($1,392,000,000)** |
| 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** | **($79,000,000)** | **($308,000,000)** | **($325,000,000)** | **($340,000,000)** | **($340,000,000)** | **($1,392,000,000)** |

**EXPENDITURE EXPLANATION**

The Department of Revenue will incur costs involved in modifying its systems dealing with both the corporate income and franchise taxes. Taxpayer education and compliance support expenses may also be incurred. These costs should be minor and one-time in nature.

**REVENUE EXPLANATION**

The current official forecast for corporate income and franchise tax combined is held steady at $340 million per year throughout the forecast horizon. Of that total, the income tax comprises approximately 75% ($255 million) and the franchise tax 25% ($85 million). Since receipts in a fiscal year reflect returns filed for a number of tax years, the revenue loss from an immediate repeal of these taxes will likely be less in the early fiscal years after the repeal, and eventually grow to the full fiscal year effect. The Department attempted to get a sense of the proportion of fiscal year receipts attributable to different tax years by querying their tax system for different tax year returns filed within various fiscal year periods. The results of that query for the FY12 period provide a rough guide for how these taxes may phase-out even under an immediate repeal; 88% income and 93% franchise in their respective year 1, 94% income and 99% franchise in year 2, and 100% for both taxes by year 3 (with some small residual actually likely). The corporate franchise tax is paid in advance. Thus, FY14 is the first fiscal year likely to lose significant amounts of franchise tax, while FY15 is the first fiscal year likely to lose significant amounts of income tax. These factors are combined to generate the revenue losses depicted in the table above. Based on the discussion below, these appear to be minimum revenue losses.

The bill immediately repeals major state revenue sources, against which the cost of various benefits are charged. For nonrefundable tax credits (42 credits, $150 million), the phase out of the tax is likely more beneficial to recipients than the credits themselves, although there may be an issue of how to resolve the benefit of unused credit amounts that are carried forward from prior years. A similar issue has to do with refundable credits (23 credits, $400+ million) and rebate payments (6 operative, $185+ million). In these cases, 100% of the benefit is available immediately to recipients regardless of tax liability, and in the case of direct cash payment programs without connection to the tax filing of the recipient at all. If these taxes are repealed, it is not clear if these benefits are repealed as well. If these benefit are to continue after the taxes are repealed, then total costs to the state from repealing these taxes will be effectively greater than depicted here. The state would lose the net revenue expected from these taxes after all benefits are charged, and the state would still have the costs of the benefits to cover with other revenue collections or appropriations.

Another issue involves refund carryovers, which are $350 million - $400 million. Presumably, these will have to be paid. In addition, there are likely net operating loss deductions that can be carried back to prior years for refund, as well.

Senate | Dual Referral Rules | House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
☐ 6.8(F) >= $500,000 Annual Fiscal Cost {S}
☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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