

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 624** HLS 15RS 1239
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action: **w/ #2 SEN COMM AMD**
 Proposed Amd.:
 Sub. Bill For.:

Date: June 4, 2015	10:16 AM	Author: JACKSON
Dept./Agy.: Revenue		
Subject: Reduces Corporate Income Tax Exclusions and Deductions		Analyst: Greg Albrecht

TAX/CORP INCOME EG2 +\$87,000,000 GF RV See Note Page 1 of 1
 Reduces the amount of certain corporate income tax exclusions and deductions

Current law allows exclusions and deductions from corporate gross income for a variety of situations .

Proposed law reduces these exclusions and deductions by 20%. The affected exclusions and deductions are: public transportation corporations, oil and gas well allowance for depletion, net operating losses, corporate income tax refunds, dividends from banking corporations, certain expenses disallowed for federal taxation, dividend income, and hurricane recovery benefits. The tax-exempt period for La Community Development Financial Institutions is shortened from five years to four years. Applicable to all claims for these exclusions and deductions made on any return filed on or after July 1, 2015, regardless of the taxable year to which the return relates. However, exclusions or deductions denied on returns filed after July 1, 2015 pursuant to an extension granted prior to July 1, 2015 can be recouped in one-third increments over three subsequent fiscal years, beginning with FY17.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	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	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	\$87,000,000	\$61,000,000	\$61,000,000	\$61,000,000	\$87,000,000	\$357,000,000
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	\$87,000,000	\$61,000,000	\$61,000,000	\$61,000,000	\$87,000,000	\$357,000,000

EXPENDITURE EXPLANATION

The Department of Revenue (LDR) will incur costs for computer system modification and testing, tax form redesign, and tax payer inquiries. These costs are typically small for individual tax law changes (likely to be several thousands of dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.

REVENUE EXPLANATION

Most of the exclusions and deductions affected by the bill have no reporting requirements in the corporate tax provisions, and the Department of Revenue has no data associated with them. For a few of the items affected by the bill the Department was able to recalculate corporate returns filed during FY14 or the top 200 of returns from the 2012 tax year with certain of these exclusions and deductions reduced by 20%. The resulting increases in tax liabilities were approximately \$87 million.

Since the bill is applicable to all return filed on or after July 1, 2015, regardless of the taxable year to which the return relates, this level of revenue gain is the base expected gain during FY16 and beyond.

Allowing denied exclusions or deductions to be recouped over the FY17 - FY19 period reduces the revenue generated in those periods. This effect is acknowledged by applying a factor that reflects the three-year average share of total corporate income & franchise tax credits on returns received in a fiscal year attributable to tax periods earlier than the immediately preceding tax period. For corporate tax returns this factor is 90%. Thus, FY17 - FY19 are reduced by one-third of 90% of the FY16 revenue generated by the bill, or \$26 million each year. By FY20 this three year recoupment is expired, and full revenue generation of the bill continues.

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| Senate | <u>Dual Referral Rules</u> | House | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {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} |

John D. Carpenter
Legislative Fiscal Officer