LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 25** HLS 161ES 51
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: February 18, 2016 8:37 AM	**Author:** JACKSON
Dept./Agy.: Revenue	
Subject: Net Operating Loss Deduction	**Analyst:** Greg Albrecht

TAX/CORP INCOME OR INCREASE GF RV See Note
Provides relative to the net operating loss deduction for corporate income tax (Item #12)

Proposed law allows no net operating loss deductions for returns filed during calendar year 2016.
For returns filed for tax years beginning before January 1, 2016, the deduction is limited to 72% of the amount of NOL available to a firm or 72% of net income, whichever is less.
For returns filed for tax years beginning on or after January 1, 2016, the deduction is limited to 50% of the amount of NOL available to a firm or 72% of net income, whichever is less.

EXPENDITURES	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**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	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**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	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

The Department of Revenue anticipates short-term system development costs to stop returns by filing date and reduce deductions to cost $14,000. Longer-term programming changes may require upward of $100,000 in costs. Costs are uncertain until work is actually underway.

REVENUE EXPLANATION

The Department of Revenue points out that the prohibition on NOL deduction use on returns filed during calendar year 2016 may encourage taxpayers to file amended returns claiming the deduction at a later time (current law allows a 20-year carry forward of deductions). This may result in greater interest expense to the state on any resulting refunds in future periods.

The Department then recalculated 2014 tax year returns with limitation of the lesser of 72% of NOL available or net income. This resulted in an increase in tax liabilities of $4 million.

The Department then recalculated 2014 tax year returns with limitation of the lesser of 50% of NOL available or 72% of net income. This resulted in an increase in tax liabilities of $61.4 million. Considering past patterns of filing timelines by fiscal year of particular tax year returns, the Department assumes a phased in effect of 28% or $17 million in FY17, 64% or $56 million in FY18, and essentially 100% or $61.4 million by FY19.

The fundamental volatility of the reported corporate tax base from year to year makes the results of simulation analysis highly unreliable for the purposes of budgeting in particular fiscal years. In addition, it is unclear how these recalculations would compare to the current baseline of corporate collections inclusive of limitations to the NOL deduction enacted in 2015. That limitation is being disputed by taxpayers, and the bill appears to attempt to address the intent of the 2015 legislation, as well as to limit the use of NOL deductions even more. Thus, estimates of specific fiscal year revenue gains are highly uncertain.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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