

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 29** HLS 161ES 65
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: February 26, 2016 6:15 PM	Author: LEGER
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Corporate Income and Franchise Tax	

TAX/CORP INCOME RE DECREASE GF RV See Note Page 1 of 1
 Reduces rates for purposes of calculating corporation income tax liability (Item #3)

The bill imposes a flat 6.5% tax rate on corporate net income rather than the current five-tiered rate and bracket structure.

Effective on Jan. 1, 2017 if the proposed amendment to Article VII of the Constitution contained in the Act which originated as HB 31 of the 2016 First E. S. is adopted at the statewide election to be held on November 8, 2016.

Effective upon governor's signature.

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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$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.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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						

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The Department of Revenue recalculated tax table income tax liabilities of returns filed in FY14 under a 6.5% flat tax rate, generating \$86 million of lower tax liability than under the current five-tiered rate and bracket structure. The bill is effective upon the governor's signature. Presumably this applies this new flat rate to tax periods beginning on or after the effective date of this bill. From a practical perspective that primarily applies the bill to tax year 2016 and subsequent tax years. Revenue losses could begin being realized in FY17 as early as the fall of 2016 through declaration payments, and through greater refund claims on 2015 tax year return filings as taxpayers carry forward less over payments for application against lower future liabilities.

Should the flat rate of this bill be applied to corporate taxable income without a federal income tax deduction, tax liabilities for the simulation year returns (FY14) would be \$30 million higher than under the current law rate and base structure.

It should be noted that this estimate is based on a recalculation of a single year's tax returns. The fundamental volatility of corporate tax make it unlikely that a single year's result is indicative of other particular years.

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}

John D. Carpenter
Legislative Fiscal Officer