LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **SB 15** SLS 161ES 74
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: March 4, 2016 1:19 PM
Author: MORRELL
Dept./Agy.: Revenue
Subject: Priority of Tax Credit Utilization
Analyst: Greg Albrecht

TAX/TAXATION RE +$1,100,000 GF RV See Note
Provides relative to the application of refundable tax credits. (Item #26)(gov sig)

Current law prioritizes the utilization of tax credits against liabilities in an order that places refundable credits near the end of the priority list, with nonrefundable credits having no carry forward first in the list for priority utilization.

Proposed law moves refundable tax credits to the second priority for utilization, after nonrefundable credits with no carry forward provisions. The bill also requires that transferable credits only be claimed on a return if they were acquired on or before the due date of the return.

Effective for tax periods beginning on or after January 1, 2016.

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.	$1,100,000	$9,500,000	$10,000,000	$10,000,000	$10,000,000	**$40,600,000**
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	**$1,100,000**	**$9,500,000**	**$10,000,000**	**$10,000,000**	**$10,000,000**	**$40,600,000**

EXPENDITURE EXPLANATION

The Department of Revenue will incur costs associated with modifying its tax processing systems to apply this change, as well as for taxpayer education and inquiries. The Department has not yet determined those additional costs.

REVENUE EXPLANATION

The Department of Revenue recalculated income and franchise tax returns received in FY14 under this bill's conditions. For corporate returns, refundable credits were first applied to the income tax and then the franchise tax. Resulting tax liabilities were some $10 million greater than under current law. Examples of nonrefundable credits without carry forward provisions are the corporate income tax credit for insurance company premium tax liabilities, and the individual income tax credit for taxes paid to other states. The net revenue gains are relatively small because refundable credits are still paid in full, while state revenue gains result only from nonrefundable credits that are not paid. Based on the historical pattern of return filings, this liability increase would be reflected in greater net revenue collections of $1.1 million in FY17, then stepping up to $9.5 million in FY18 as returns under extension are received, and $10 million by FY19 and beyond.

It should be noted that these results are based on a simulation of a single year of returns received. In particular, corporate returns exhibit a high degree of volatility, and a single year simulation is not likely to be representative of results over time. In addition, modeling the changes of proposed bills into the current law datasets for re-computation of returns can be fairly complex. These results are highly uncertain as to particular years and for budgeting purposes.

Currently, according to the Revenue Department, most taxpayers who utilize transferable tax credits file with extension and then purchase credits after the return due date to cover their tax liability balance, as needed. Presumably, as a result of this bill, taxpayers will purchase credits prior to the return due date (April 15th for calendar tax year corporate returns and May 15th for calendar tax year individual returns). To the extent this occurs there is no revenue effect from this provision of the bill. Since the bill is effective for the 2016 tax year, for which returns are filed or extended in the spring of 2017, it seems likely that taxpayers would be able to adjust to the new requirements of the bill with little effect on net revenue collections.

Senate Dual Referral Rules House

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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