Current law levies a franchise tax at the rate of $1.50 per $1,000 on the first $300,000 of taxable capital, and $3.00 per $1,000 on taxable capital in excess of $300,000. The tax is due on the first day of a taxpayer's normal accounting period (calendar or fiscal), and payable in the fifth month after the tax is due.

Proposed law suspends the first tier of the tax ($1.50 per $1,000 on the first $300,000 of taxable capital), and the first-time initial tax, for the 2021 tax year until the 60th day after final adjournment of the 2021 regular legislative session.

The Department will incur relatively minor costs in FY21 and FY22 ($51,000/year) of IT staff time to modify the tax processing system to incorporate the suspension and then reinstatement of the tax.

The Department of Revenue looked to the 2017/2018 tax year returns (2017 corporate income tax year, 2018 corporate franchise tax year: filed on a combined return) as the most recent year of complete filings to estimate the effect of suspending the first tier of the franchise tax. The franchise tax associated with this first tier of tax, after all nonrefundable credits, was $10.2 million. Refundable credits require no tax liability, and would still be refunded to taxpayers.

The tax is suspended based on the due date of the tax, while the estimated state fiscal year revenue losses occur based on the payable date. The tax is due on the first day of a taxpayer's normal accounting period, making the due date January 1, 2021, and payable May 15, 2021. Thus, most of the state revenue loss will occur in FY21, but some will occur in FY22, as depicted in the table above, and based on the payment pattern of the 2017/2018 tax returns evaluated by the department.

Initial tax of $110 is levied on every new entity subject to franchise tax. This initial tax would also be suspended for new entities during the suspension period, and would add to the estimated losses above. Typically, the initial tax generates approximately $110,000 per year, assuming the typical number of new entities in 2021 as in past years (about 1,100).