



**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**

Fiscal Note On: **HB 218** HLS 15RS 758  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

|  |                               |
|--|-------------------------------|
| <b>Date:</b> April 19, 2015 3:01 PM          | <b>Author:</b> BROADWATER     |
| <b>Dept./Agy.:</b> Revenue                   | <b>Analyst:</b> Greg Albrecht |
| <b>Subject:</b> Net Operating Loss Deduction |                               |

TAX/CORP INCOME OR +\$1,200,000 GF RV See Note Page 1 of 1  
 Provides with respect to the net operating loss deduction for purposes of the corporate income tax

Current law allows corporations to deduct from their Louisiana net income in a particular year operating losses they incurred in other years. Losses incurred in a year can be carried forward for fifteen years and deducted from positive net income in any of those years, reducing tax liabilities in those years, or carried back for three years to amend returns from a prior year to deduct from earlier positive net income, generating refunds of earlier taxes paid.

Proposed law eliminates the carry-back option and adds five additional years to the carry-forward option.

Effective for taxable years beginning on or after January 1, 2015.

| <b>EXPENDITURES</b> | <b>2015-16</b> | <b>2016-17</b> | <b>2017-18</b> | <b>2018-19</b> | <b>2019-20</b> | <b>5 -YEAR TOTAL</b> |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| State Gen. Fd.      | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Agy. Self-Gen.      | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Ded./Other          | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Federal Funds       | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Local Funds         | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| <b>Annual Total</b> | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>           |

  

| <b>REVENUES</b>     | <b>2015-16</b>     | <b>2016-17</b>     | <b>2017-18</b>      | <b>2018-19</b>      | <b>2019-20</b>      | <b>5 -YEAR TOTAL</b> |
|---------------------|--------------------|--------------------|---------------------|---------------------|---------------------|----------------------|
| State Gen. Fd.      | \$1,200,000        | \$6,600,000        | \$10,000,000        | \$13,200,000        | \$19,900,000        | <b>\$50,900,000</b>  |
| Agy. Self-Gen.      | \$0                | \$0                | \$0                 | \$0                 | \$0                 | <b>\$0</b>           |
| Ded./Other          | \$0                | \$0                | \$0                 | \$0                 | \$0                 | <b>\$0</b>           |
| Federal Funds       | \$0                | \$0                | \$0                 | \$0                 | \$0                 | <b>\$0</b>           |
| Local Funds         | \$0                | \$0                | \$0                 | \$0                 | \$0                 | <b>\$0</b>           |
| <b>Annual Total</b> | <b>\$1,200,000</b> | <b>\$6,600,000</b> | <b>\$10,000,000</b> | <b>\$13,200,000</b> | <b>\$19,900,000</b> | <b>\$50,900,000</b>  |

**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 such as this (\$39,000 estimated by LDR) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.

**REVENUE EXPLANATION**

The bill eliminates the carry-back of net operating losses (NO) in corporate income taxation. This will eliminate refunds to firms who amend prior tax returns to apply current losses, and result in greater net corporate tax receipts than would be the case under current law. To assess the potential revenue gain the Revenue Department (LDR) selected corporate tax returns processed during several past fiscal years that had carry-back amounts deducted, and recalculated those returns without the carry-back deductions. The average revenue effect was \$28.8 million. However, in a given fiscal year returns from several prior taxable years are processed. This bill eliminates the carry-back deduction for taxable periods beginning with 2015. Thus, in FY16 only a portion of the returns processed in that fiscal year will be returns filed subject to the change made by this bill. In FY17, a greater portion of returns processed will be subject to this bill, with a greater portion in FY18, FY19, and FY20. The revenue effect of the bill will ramp up toward the average fiscal year effect over a number of years.

LDR isolated the respective tax year returns within each of the last five fiscal years. Each tax year's share of that fiscal years impact was calculated, and those shares were then averaged over the five fiscal years examined. While the shares in fiscal year's impact associated with each respective preceding tax year varied considerably, in each case the share associated with the first preceding tax year was small, averaging 4%. For the second preceding tax year 19%, for the third 13%, fourth 11%, fifth 23%, sixth 18%, and the balance associated with even earlier tax years. These annual shares are then accumulated for each succeeding fiscal year of the fiscal note horizon: FY16 4%, FY17 23%, FY18 35%, FY19 46%, FY20 69%, and the balance occurring in fiscal years beyond the fiscal year horizon.

These average shares are applied to the average fiscal year amount of \$28.8 million to obtain an estimate of how much revenue may be gained by the state as successive tax years without NO carry-back allowed show up in succeeding fiscal years throughout the fiscal note horizon.

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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**