LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 624** HLS 15RS 1239
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 18, 2015 10:26 AM **Author:** JACKSON
Dept./Agy.: Revenue
Subject: Reduces Corporate Income Tax Exclusions and Deductions **Analyst:** Greg Albrecht

TAX/CORP INCOME EN +$122,000,000 GF RV See Note
Reduces the amount of certain corporate income tax exclusions and deductions

Current law allows exclusions and deductions from corporate gross income for a variety of situations .
Proposed law reduces these exclusions and deductions by 28%. The affected exclusions and deductions are: public transportation corporations, oil and gas well allowance for depletion, net operating losses, corporate income tax refunds, dividends from banking corporations, certain expenses disallowed for federal taxation, dividend income, and hurricane recovery benefits. The tax-exempt period for La Community Development Financial Institutions is shortened from five years to four years. Applicable to all claims for these exclusions and deductions made on any return filed on or after July 1, 2015, regardless of the taxable year to which the return relates. However, exclusions or deductions denied on returns filed after July 1, 2015 pursuant to an extension granted prior to July 1, 2015 can be included in one-third increments on returns filed for taxable years beginning in calendar year 2017, 2018, and 2019. Not applicable to amended returns timely filed after July 1, 2015, relating to original returns filed prior to July 1, 2015 and properly claimed an exemption, credit, rebate, or deduction. Expires 7/1/2018.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	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	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	$122,000,000	$122,000,000	$85,000,000	($37,000,000)	($37,000,000)	**$255,000,000**
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	**$122,000,000**	**$122,000,000**	**$85,000,000**	**($37,000,000)**	**($37,000,000)**	**$255,000,000**

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 (likely to be several thousands of dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.

REVENUE EXPLANATION

Most of the exclusions and deductions affected by the bill have no reporting requirements in the corporate tax provisions, or the Department of Revenue does not electronically capture the data associated with them. The Department was able to recalculate corporate returns filed during FY14 claiming the net operating loss deduction, and reducing the deduction by 20%. The resulting increases in tax liabilities were approximately $75 million. A similar recalculation was done with respect to the deductions for dividends, depletion allowance, and I.R.C. 280(C) disallowed expenses for selected returns in the top 200 returns of the 2012 tax year, with these deductions reduced by 20%. The resulting increases in tax liabilities were approximately $12 million. The combined effect of these two recalculations is scaled up to the 28% reduction in the enrolled bill to generate an estimate of $122 million.

Since the bill is applicable to all return filed on or after July 1, 2015, regardless of the taxable year to which the return relates, this level of revenue gain is the base expected gain during FY16 and beyond.

Exclusions or deductions denied on returns filed in FY16 pursuant to an extension can be included on returns filed for tax years beginning in calendar years 2017, 2018, and 2019. These returns will be filed in the spring each year affecting FY18, FY19, and FY20; reducing the revenue generated in those periods. This effect is acknowledged by applying a factor that reflects the three-year average share of total corporate income & franchise tax credits on returns received in a fiscal year attributable to tax periods earlier than the immediately preceding tax period. For corporate tax returns this factor is 90%. Thus, full revenue gains are realized in FY16 and FY17, before being reduced in FY18, FY19, and FY20 by one-third of 90% of the FY16 revenue generated by the bill, or $37 million each year. Since the bill terminates the reduction of the deductions after FY18 while allowing the full three year recoupment, FY19 and FY20 incur net revenue losses from the second and third years of recoupment without the continuation of revenue gains from the limitation of deductions.

Amended returns, timely filed after July 1, 2015 relating to original returns filed prior to July 1, 2015 that properly claimed an exclusion or deduction are assumed to not effect the potential revenue generated by the bill. The original returns would have already received the benefit of any exclusions or deductions. Presumably, the amended filing would be for reasons unrelated to the properly claimed and received exclusions and deductions.

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(F)(2) >= $500,000 Rev. Red. to State {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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