LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 355** HLS 17RS 1155
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 8, 2017 8:46 AM **Author:** IVEY
Dept./Agy.: Revenue
Subject: Revisions to Various Taxes **Analyst:** Greg Albrecht

TAX OR SEE FISC NOTE GF RV
Provides for the comprehensive revision of the tax code and tax incentives

Proposed law substantially revises various provisions of tax. The personal income tax is changed to a single rate system with personal/standard deductions and the excess federal itemized deduction substantially modified. Repeals the corporate franchise tax. Changes the corporate income tax to a single rate system that retains partnership and S-corp income at the business entity level for taxation. Converts the state tax credit for local ad valorem taxes paid on inventory property to a nonrefundable credit of 50% of the local tax paid with a five-year carryforward. Continues the current tax credit payout cap for film production credits through FY25 and then phases the cap out by FY 29. Repeals numerous tax credits. Limits the allowable amount of net operating loss deduction on the basis of the stock of such deduction a taxpayer has. Reduces the severance tax rate on oil by 36% and modifies the horizontal drilling exemption by extending its availability and cutting it in half. Eliminates vendor compensation for sales tax remittance. Applicable January 1, 2018, but with different sections contingent upon adoption of a constitutional amendment, and passage of HCR 4 and HB 119.

EXPENDITURES	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**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	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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						

EXPENDITURE EXPLANATION

The Dept. of Revenue will incur costs associated with designing, modifying, and testing the tax processing system. These costs are typically estimated in the tens of thousands of dollars of staff time (in this case $246,000 over two years). An assessment of the cumulative need resulting from all legislation is made at the end of session which informs the budget request of the Dept. However, the extensive nature of the changes proposed by this bill will likely require substantial resources to set up, and to support taxpayer compliance and enforcement on an ongoing basis.

REVENUE EXPLANATION

This bill appears to embody the provisions of a number of other bills; primarily HBs 359 (individual income tax revisions - 3% or 4% single rate scenarios), 360 (corporate/business tax revisions - 6% or 6.5% single rate scenarios), 361 (repeal corporate franchise tax - $400M+ loss by 3rd year - with proposed phase-out a $100M+ loss by 3rd year), 362 (inventory credit revisions - indeterminable, and film credit revisions - cost savings by FY25), and 364 (severance tax revisions - $98M loss in 1st year). Discussion of the possible fiscal effects of this bill's provisions contained in these other bills can be reviewed in the fiscal notes of those other bills. However, those bills have contingencies in them, as does this bill itself, and a combined estimate of the effects of all these provisions is not possible.

This bill also appears to contain provisions unique to this bill such as limiting the allowable amount of net operating loss deduction on the basis of the stock of such deduction a taxpayer has (see below), eliminating vendor compensation for sales tax remittance (approximately $19M per year), and terminating numerous tax credits (totaled $293M in FY16, but termination would accumulate savings over time rather than all in the first year).

The Dept recalculated 2015 tax year corporate returns incorporating the NOL limitations, as well as the 6% and 6.5% single rate scenarios based on whether or not the federal income tax (FIT) deduction was eliminated. The results of that exercise was a $87M reduction in liabilities at 6.5% and FIT deduction, and a $50M reduction in liabilities at 6% and no FIT deduction.

The bill makes significant changes to major state taxes, essentially simultaneously. The ultimate fiscal effects will be influenced by the interaction of these taxes and the changes being made to them, and an assessment of the likely net state revenue effect is not possible. In addition, many of these provisions affect corporate/business taxation which experiences a highly volatile tax base and subsequent tax liabilities and payments. This reality, and the existence of tax planning strategies, reduces the reliability of an any assessment of changes to business taxation.

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x] 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}

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