LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 93** SLS 19RS 195
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 5, 2019 4:00 PM
Author: WARD
Dept./Agy.: Revenue
Subject: Corporate Income Tax
Analyst: Greg Albrecht

TAX/TAXATION OR -$144,000,000 GF RV See Note

Provides a flat corporation income tax rate and eliminates the usage of certain tax credits against corporation income tax. (gov sig)

Present law imposes graduated rate and net income bracket taxation on corporations. The maximum tax is 8% of net income in excess of $200,000. Various credits are allowed against the tax liability.

Proposed law imposes a flat tax rate of 3.95% on all net income, and disallows various credits against the corporate income tax liability, but with exceptions and requires nonrefundable credits with remaining carry-forward balances to be applied to the franchise tax if possible. Remaining amounts of carry-forward credits can be applied against the income tax evenly over four years beginning with tax year 2021.

Effective for for tax years beginning on and after January 1, 2020.

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	$0	INCREASE	$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**

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	$0	($144,000,000)	($264,000,000)	($290,000,000)	($291,000,000)	**($989,000,000)**
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	**$0**	**($144,000,000)**	**($264,000,000)**	**($290,000,000)**	**($291,000,000)**	**($989,000,000)**

EXPENDITURE EXPLANATION

Implementation of this proposal will result in approximately $26,000 of programming, testing and system development costs related to the revision of the affected tax returns. The cost also includes estimated expenses of $54,000 from LDR's Revenue Processing Center (RPC) to update equipment and software to process the revised return in FY 2020-2021.

REVENUE EXPLANATION

To estimate the revenue effect of the bill, the Dept. of Revenue recalculated 2016 tax year corporate income tax returns (the latest complete year) at the bill's 3.95% flat rate, and compared that result to the reported tax liabilities. The result was a revenue loss of $335 million.

Past filing patterns suggest that within a fiscal year, 45% of corporate tax returns apply to the immediate tax year, 50% to the preceding tax year, and 5% from earlier tax years. Incorporating these filing timing factors, results in a first fiscal year revenue reduction of $151M in FY21 ($335M x 45%). The second year reduction will include a 50% filing factor applied to the first year's tax reduction plus the second year's 45% filing factor, resulting in a $318M revenue reduction in FY22. By the third and subsequent fiscal years, nearly all of the $335M tax reduction is reflected in receipts in FY23 and beyond.

With regard to the credit limitations of the bill, the Dept. examined the affected credits to determine the likely disposition of each under the bill's provisions. Only the premium tax credit would be completely eliminated ($44M per year). Other credits were unlikely to be affected due to shifting to the franchise tax, transferability, or rebate provisions. Remaining nonrefundable credits with carry-forwards applicable the corporate income tax were then phased out over four years from FY21, and with the filing timing factors above applied. The results of this exercise were net revenue losses in each fiscal year as depicted in the table above.

Actual revenue effects are further complicated by the carry-forward of overpayments from prior years, which are still due to the taxpayer even if the tax is reduced. For the base tax year of 2016, corporate income tax credit carry-forwards were some $277 million. Taxpayers with lower liabilities may request a refund of their credited carry-foward, and may also reduce declaration payments in future periods. Taxpayers with higher liabilities may utilize their credit carry-fowards, as well as increase declaration payments in future periods.

Given the inherent volatility of corporate tax situations and associated tax receipts, the uncertainty of the effects of the federal tax law changes enacted in late 2017, and the various assumptions required of this analysis, the specific estimated effects of the bill by fiscal year can not be considered reliable.

Senate Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

- [ ] 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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