LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 2** HLS 243ES 11
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: November 11, 2024 8:14 AM
Author: EMERSON
Dept./Agy.: Revenue
Subject: Flat 3.5% CIT Rate; Credit & Program Sunsets
Analyst: Benjamin Vincent

TAX/CORP INCOME EG SEE FISC NOTE RV See Note

Provides for a flat rate for purposes of calculating corporate income tax and terminates certain corporate income tax exemptions, deductions, and credits (Item #4)

Proposed law replaces the graduated current-law corporate income tax (CIT) rates into a single rate of 5.5% in tax year 2025, and 3.5% for tax year 2026 and beyond. It additionally repeals applicability of certain credits or exemptions to CIT liabilities with immediate effect. Proposed law additionally repeals granting of certain credits unless applied for or earned prior to July 1, 2025. Proposed law also authorizes enhanced deductibility of depreciation for certain business expenditures ("Bonus Depreciation"), and repeals provisions regarding foreign trade zones.

CIT provisions in proposed law are applicable to CIT-taxable years beginning on or after January 1, 2025; CFT provisions in proposed law are applicable to CFT-taxable years beginning on or after January 1, 2026.

EXPENDITURES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	**$200,000**	$0	$0	$0	$0	**$200,000**
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	**$200,000**	**$0**	**$0**	**$0**	**$0**	**$200,000**

REVENUES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	$0	**$33,000,000**	**$44,000,000**	**$52,000,000**	**$62,000,000**	**$191,000,000**
Agy. Self-Gen.	**($1,000,000)**	**($1,000,000)**	**($2,000,000)**	**($1,000,000)**	$0	**($5,000,000)**
Ded./Other	**($119,000,000)**	**($144,000,000)**	**($229,000,000)**	**($151,000,000)**	**($52,000,000)**	**($695,000,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($120,000,000)**	**($112,000,000)**	**($187,000,000)**	**($100,000,000)**	**$10,000,000**	**($509,000,000)**

EXPENDITURE EXPLANATION

LDR reports anticipated one-time expenditures for minor system design and specification updates, testing, and system development in support of tax return modifications and processing system modification. Anticipated costs total approximately $200,000, and would come out of SGR collections, as reflected in the table above. Any such expenditure increases will serve to mechanically reduce net receipts (SGF) by a like amount. LFO assumes that these expenditures would impact FY 25.

REVENUE EXPLANATION

The overall fiscal impact of this proposal by year is affected by multiple moving parts. Each of the major components are discussed below, and the combination of these individual factors implies an **FY 25 CIFT impact of -$120 million, a FY 26 impact of -$145 million, a FY 27 impact of -$231 million, and a FY 28 impact of -$152 million**, reflected in the table above under Dedicated revenues. Various **offsetting provisions imply SGF gains in FY 26 and subsequent years**, as reflected in the table above. Proposed law reduces certain collections that LDR is currently permitted to retain 1% of as SGR, reflected in the table above as reduced Self-generated revenues.

LFO assumes for this analysis that future-year collections approximate the collections observed in the tax return data for the year used for these estimates. Such collections imply that under proposed law - considered in isolation and not in conjunction with any other 2024 3rd Extraordinary Session bills - total CIFT collections would remain above the $600 million threshold, such that **resulting declines in CIFT collections would not impact SGF revenues, instead reducing collections that would otherwise accrue to the Revenue Stabilization Trust Fund** (RSTF), reflected above as reduced Dedicated revenues.

Discussion of Specific Provisions

Transition to Flat 3.5% Rate (Tax Liability Impact)

The corporate income tax liability change was modeled using returns filed for taxable year 2021, modified to reflect the 2022 tax code. Historical filing patterns suggest that 28% of payments due are collected in the year they are incurred, an additional 65% are collected in the subsequent year, and the remaining 7% are typically collected in the third year. Thus the full effect resulting from a flat 3.5% rate, effective as of January 1, 2026, is an estimated $612 million in reduced CIT liability. This is reflected in the table above as fully-realized in FY 28.

Proposed law phases-in the reduction to 3.5%, first applying a single rate of 5.5% for the taxable year 2025. The impact of a 5.5% rate will only be partially realized prior to effectiveness of the 3.5% rate, resulting in a CIT impact of -$86 million in FY 25. Filing patterns imply that the rate step-downs would result in a -$371 million CIT impact in FY 26, a -$591 million impact in FY 27, and a -$612 million impact in FY 28 and subsequent years.

(continued on Page 2: impacts of other provisions)

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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CONTINUED EXPLANATION from page one:

Discussion of Specific Provisions (continued)

Certain Credits Immediately Disallowed:
Proposed law repeals the applicability of several credits with immediate effect. Under current law, such credits are estimated to reduce CIT revenues by approximately $145 million, and in the proposed law would serve to partially offset the revenue loss from the CIT rate reduction. Additionally, the repeal of such credits would increase Corporate Franchise Tax net collections in a similar manner by approximately $115 million, and Individual Income Tax (IIT) collections by approximately $37 million.

LFO assumes that these repeals would materially offset revenue losses relatively quickly, reflected as a contribution of +$260 million in FY 26 and subsequent years in Dedicated revenues, and +$37 million in SGF.

Certain Credits Terminating by Application or Certification Date:
The repeal of these items is not likely to materially increase net CIT collections immediately, as there is typically a significant lag between the time that such credits are granted and the time that they are ultimately claimed. Additionally, the proposal sets a future date (July 1, 2025) after which no credits will be granted, which will likely engender a spike in the number of applications and notices prior to the deadline. All such outstanding credits would need to be paid out in order to fully realize the full revenue gain from this element of the proposed bill.

Credits (terminating by application date) that would no longer be authorized are anticipated to reduce CIT revenues by approximately $500 million in FY 25 under current law. A net CIT revenue increase of comparable magnitude would eventually occur due to disallowing new participation after July 1, 2025.

However, LFO believes that such an increase is unlikely to manifest fully within the 5-year fiscal note horizon, as many outstanding credits will be applied against a smaller CIT tax base (due to the reduced rate). This factor contributes an assumed increasing annual portion of the estimated +$500 million; 20% in FY 27, 40% in FY 28, and so on until an annual impact of approximately +$500 million is ultimately realized by FY 31.

Additionally, several credits terminated by proposed law apply to revenue streams other than corporate taxes, and as such will partially offset CIT revenue losses that are dedicated to the RSTF, while also partially reducing losses to revenue streams that accrue to SGF. This effect would eventually serve to increase SGF net collections by approximately $80 million, via increased IIT and sales tax collections by FY 31.

Double Counting Issue:
Provisions terminating certain credits by application or certification date appear to duplicate several provisions contained in HB 1 Original of the 3rd Extraordinary Session of 2024, which would serve to increase net CIT, CFT, IIT, and general sales tax collections and increase SGF revenues.

The fiscal note on HB 1 Original also currently incorporates these SGF impacts of +$80 million, thus their inclusion in this analysis results in double-counting should both bills become law. If either bill should achieve final passage, the fiscal note on the other bill would remove the effect of this provision from its overall impact estimate.

Existing Carryforwards of Refunds/Overpayments:
Approximately $137 million of overpayments carried forward exist that may be claimed against taxable periods after 12/31/2022. Reduced liabilities in taxable year 2025 may accelerate claims of these refunds, reducing FY 25 net CIT revenue. For purposes of this analysis, LFO assumes that 25% (~$34 million) of the corpus of such claims are pulled into FY 25 that would otherwise not be, with a similar impact occurring in FY 26.

Reduced SGF Interest Earnings Due to Net Loss of CIFT Revenues & RSTF Deposits
An accumulating loss to SGF Interest earnings will follow the net losses of CIFT revenues relative to current law. Using an average 3.3% interest rate, the impact is an estimated -$4 million in FY 26, -$9 million in FY 27, -$17 million in FY 28, and -$23 million in FY 29.

New Bonus Depreciation Exemption and Repeal of Foreign Trade Zone Definition for Apportionment Purposes:
Proposed law expands the expenditures eligible to qualify for a depreciation deduction to 100% in the year that the eligible property is placed in service ("Bonus Depreciation or Amortization"), and additionally repeals an apportionment provision that defines movable property located in foreign trade zones as outside the state. The Bonus Depreciation provision would serve to reduce CIT collections, and the foreign trade zone provision would serve to increase CIT collections by expanding the taxable base.

As of the construction of this analysis, LFO has no reliable basis for the magnitude of the effect of either provision, and assumes that they approximately offset each other.

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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