LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HCR 7** HLS 15RS 505
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 5, 2015 10:08 AM
Author: HUNTER
Dept./Agy.: Revenue
Subject: Net Operating Loss Deduction
Analyst: Greg Albrecht

TAX/SALES & USE EG INCREASE GF RV See Note

Suspends the income tax deduction for net operating loss

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 suspends the deduction through the 60th day afrer final adjournment on the 2016 regular session.

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.	INCREASE	SEE BELOW	$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**

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 (usually several thousand dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.

REVENUE EXPLANATION

The resolution suspends the use of the net operating losses (NOL) deduction (both carry-back and carry-forward deductions) in corporate income taxation for the term of the resolution; essentially the fiscal year 2015-2016.

Presumably the resolution applies to all returns filed on or after the date of adoption of the resolution through the date of expiration regardless of the tax year to which the return relates. The Department of Revenue Tax Exemption Budget for FY15 reports this deduction resulting in $368 million of lost revenue in FY14, the last full year of actual data. The revenue loss has exhibited growth and seems likely to result in at least that much revenue loss in future fiscal years. Thus, if the resolution applies to all returns filed during FY16, state revenue gains would be at least $368 million in FY16.

After that the resolution expires and the deduction would be fully allowed. Thus, no revenue is gained in FY17 and beyond. In addition, much of the deductions not allowed in FY16 may still be available to be used by taxpayers on filings in later fiscal years, and interest may be due on the amount of tax reduction that was denied during the FY16 suspension. This additional interest cost may occur in FY17.

Should the resolution be applied only to returns reflecting the 2015 tax period, then a significantly smaller amount of revenue gain would occur for the state. Typically, only about 4% of the total amount of revenue effect associated with returns reflecting the immediately preceding tax year are a component of returns filed during a fiscal year, with regard to carry-back deductions. Since this resolution suspends the use of both carry-back and carry-foward deductions, the effect within a fiscal year would be greater. To acknowledge that greater effect the fiscal note assumes a doubling of the 4% effect to about $29 million in FY16, under this more restrictive applicability of the resolution.

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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