



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: HB 629 HLS 15RS 1016
Bill Text Version: REENGROSSED
Opp. Chamb. Action: W/ SEN FLOOR AMD
Proposed Amd.:
Sub. Bill For.:

Date: June 6, 2015 3:37 PM Author: JACKSON
Dept./Agy.: Revenue/Economic Development Analyst: Deborah Vivien
Subject: Reduces credits and incentives by 20% for all claims 7/1/15

TAX CREDITS REF +\$26,400,000 GF RV See Note Page 1 of 1
Reduces income and corporation franchise tax credits

Proposed law reduces certain income and franchise tax credits by 28% beginning with all forms filed on or after July 1, 2015. Proposed law also reduces certain tax incentives by 28% beginning with all claims filed on or after July 1, 2015. Major categories of tax credits include the citizens assessment credit, education credit, new jobs credit, recycling credit, and milk producers credit, among others. The maximum alternative fuel credit for new vehicles is reduced by 50% to \$1,500. Tax incentives in the bill are the live music and theater productions, sound recording, brownfields, technology commercialization, green jobs credit and others. Applicable to all claims for credits or transfers on or after July 1, 2015 regardless of the taxable year of production to which the claim or transfer relates. However, claims denied on returns filed after July 1, 2015 pursuant to an extension allowed prior to July 1, 2015 can be recouped in one-third increments over three subsequent fiscal years, beginning with FY17. 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.

Table with 7 columns: EXPENDITURES, 2015-16, 2016-17, 2017-18, 2018-19, 2019-20, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

Table with 7 columns: REVENUES, 2015-16, 2016-17, 2017-18, 2018-19, 2019-20, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

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. The implementation and timing of provisions in the bill could require substantial resources given the nature of the changes.

REVENUE EXPLANATION

The bill is expected to increase SGF by about \$26M in FY 16 as numerous income and franchise tax credits as well as tax incentives are cut by 28% beginning with all claims filed on or after 7/1/15 (alternative fuel credit is cut by 50%), increasing by an estimated 2% over the fiscal note horizon. This estimate uses an expeditious method by taking 28% of the Tax Exemption Budget figures (50% for alternative fuels) for the numerous credits and incentives included in the bill. Without a high degree of confidence with regard to actual collections that may occur, this method gives the results below:

Table with 6 columns: Category, FY16, FY17, FY18, FY19, FY20. Rows include Corporate Income Tax, Individual Income Tax, Franchise Tax, Total Tax Credits, Tax Incentives, Total Base Impact, Recoupment Effect, and Total Net Effect.

Allowing denied claims to be recouped over the FY17 - FY19 period reduces 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, FY17 - FY19 are reduced by one-third of 90% of the FY16 revenue generated by the bill, or \$80 million each year. By FY20 this three year recoupment is expired, and full revenue generation of the bill continues.

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

- Senate Dual Referral Rules House
13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
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}

Signature of Gregory V. Albrecht
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