LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 629** HLS 15RS 1016
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 18, 2015 2:26 PM **Author:** JACKSON
Dept./Agy.: Revenue/Economic Development
Subject: Reduces credits and incentives by 20% for all claims 7/1/15 **Analyst:** Deborah Vivien

TAX CREDITS EN +$31,500,000 GF RV See Note
Reduces income and corporation franchise tax credits

Proposed law reduces certain income and franchise tax credits by 28%, applicable to all claims for credits on or after 7/1/15 but before June 30, 2018, regardless of the tax year to which the claim relates. Proposed law also reduces certain tax incentives by 28%, with most effective on applications filed on or after 7/1/15, rather than credits claimed after that date. 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 impacted in the bill are the digital media, angel investor, live music and theater productions, sound recording, brownfields, technology commercialization, and others beginning with new applications. Reductions in the ports credits, import/export cargo and green jobs credit are effective with all credits claimed on or after 7/1/15, instead of new applications. However, benefits reduced on returns filed after 7/1/15 pursuant to an extension filed prior to 7/1/15 can be recouped in one-third increments over three subsequent fiscal years, beginning with CY17 (FY 18). The reductions are not applicable to amended returns timely filed after 7/1/15, relating to original returns filed prior to 7/1/15 and properly claiming an exemption, credit, rebate, or deduction.

EXPENDITURES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	$0	INCREASE	$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**

REVENUES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**5 -YEAR TOTAL**
State Gen. Fd.	$31,500,000	$33,500,000	$27,600,000	($2,900,000)	($3,600,000)	**$86,100,000**
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	**$31,500,000**	**$33,500,000**	**$27,600,000**	**($2,900,000)**	**($3,600,000)**	**$86,100,000**

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 this bill could require substantial resources given the large number of changes in the bill. At the end of FY18 and possible into FY19, additional costs will be incurred to return to current law benefits.

REVENUE EXPLANATION

The bill is expected to increase SGF by about $31.5M in FY 16 as numerous income and franchise tax credits are cut by 28% beginning with all claims filed on or after 7/1/15 (alternative fuel credit is cut by 50%), with base collections 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 included in the bill as an estimate of the fiscal impact. Impacts of reductions to tax incentives increase SGF gradually as new applications begin to claim credits starting in FY 17 and slowly ramp down as the reductions end on 7/1/18. The bill also ends the credit reductions on 7/1/18, the middle of TY 18. The fiscal note assumes no additional revenue is gained in FY19 and beyond, though actual filer behavior may differ. Without a high degree of confidence with regard to actual collections that may occur, this method gives the results below (in millions):

	FY16	**FY17**	**FY18**	**FY19**	**FY20**
Corporate Income Tax	$11.2	$11.5	$11.7	$0.0	$0.0
Individual Income Tax	19.9	20.3	20.7	0.0	0.0
Franchise Tax	0.3	0.4	0.4	0.0	0.0
Total Tax Credits	$31.5	$32.1	$32.8	$0.0	$0.0
Tax Incentives	0.0	1.4	4.3	6.5	5.8
Total Base Impact	$31.5	$33.5	$37.1	$6.5	$5.8
Recoupment Effect	0.0	0.0	($9.4)	($9.4)	($9.4)
Total Net Effect	$31.5	$33.5	$27.6	($2.9)	($3.6)

Allowing reduced claims to be recouped over FY18 - FY20 (CY 17-19) reduces revenue in FY18, and then in FY19 & FY20 no credit reduction revenue is available, except for the trailing effect of the affected tax incentive program reductions. 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, FY18 - FY20 are reduced by one-third of 90% of the FY16 revenue generated by the bill, or $9.4 million each year. (Continued on Page 2)

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 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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CONTINUED EXPLANATION from page one:

REVENUE EXPLANATION (Continued)

It is assumed that the bill's reductions are effective in the same manner in terms of claims or applications, whether beginning 7/1/15 for new law and 7/1/18 for the return to current law. The rates for some credits and incentives may have inadvertently been incorrectly changed due to language involving percentages, though this note assumes a 28% reduction in those cases.

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 assumed to not 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}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
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