LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 5** HLS 162ES 23
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 6, 2016 7:54 PM
Author: LEGER
Dept./Agy.: Revenue
Subject: Federal Income Tax Deduction
Analyst: Greg Albrecht

TAX/CORP INCOME OR SEE FISC NOTE GF RV See Note

Provides with respect to the applicability and effectiveness of Act Nos. 30 and 31 of the 2016 First Extraordinary Session of the Legislature which eliminated the deductability of federal income taxes paid for purposes of computing corporate income

Current law constitutionally and statutorily requires a deduction for federal income taxes paid when computing state income taxes. Act 31 of the 2016 ES1 session proposes a constitutional amendment to remove that requirement for corporate income tax. That proposal is to be submitted at the statewide election to be held on November 8, 2016, and is to be effective for all tax years beginning on and after January 1, 2017. Act 30 of the 2016 ES1 session removes the requirement from the statutes contingent upon adoption of Act 31. The current five-tiered rate and bracket structure is modified to a single 6.5% tax rate on corporate net income by Act 8 of the 2016 ES1 session upon adoption of Act 31 at the 11/8/2016 election.
Proposed law moves the constitutional amendment ballot back nearly a year to the October 14, 2017 statewide election, and if adopted, become effective for all tax years beginning one year later, on and after January 1, 2018. The statutory removal of the requirement in Act 30 are also delayed by one year, as well, to tax years beginning on and after January 1, 2018. The single tax rate changes of Act 8 are proposed to be shifted back one year, to January 1, 2018, other legislation this session.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	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	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	SEE BELOW	SEE BELOW	SEE BELOW	**$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**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The combined result of Acts 31, 30, and 8 of the 2016 ES1 session was an estimated tax liability gain of $3.3 million in FY18, $28.5 million in FY19, and $30 million in FY20 and beyond. These estimates were derived by the Department of Revenue calculating FY14 corporate tax returns with the single 6.5% tax rate of Act 8 applied to the expanded corporate tax base (without federal income tax deductibility) provided by Acts 31 and 30, compared to current law.

This bill delays the removal of the constitutionally and statutorily required federal income tax deduction by one year, and consequently delaying any tax liability effects to FY19, as well. Presuming the 2016 ES2 bill proposing to shift back by one year, to tax years beginning on and after January 2, 2018, the single 6.5% tax rate modification provided in Act 8 is also enacted, the estimated effects from the combined bills of 2016 ES1 can be taken as the combined estimated effects of the two delaying bills of this ES2 session. Those effects would first appear in FY19 and step up to full effect by FY21.

In the absence of a modification of the corporate tax rate and bracket structure, Acts 31 and 30 result in approximately $200 million of additional corporate tax liability, beginning in FY19 (about 10% or $20 million) then stepping up in FY20 (about 95% or $190 million) and FY21 and beyond (100% or $200 million). This assessment is based on fiscal year data from the Revenue Department 2015-16 Tax Exemption Budget.

It should be noted that corporate tax liabilities and ultimate payments are highly volatile, and any single year is not indicative of any other particular year.

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(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
John D. Carpenter
Legislative Fiscal Officer