LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 64** HLS 162ES 116
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 9, 2016 8:41 AM **Author:** BROADWATER
Dept./Agy.: Revnue
Subject: Repeal Corporate Income and Franchise Tax **Analyst:** Greg Albrecht

TAX/INCOME TAX OR DECREASE GF RV See Note

Repeals the corporate income tax and franchise taxes and prohibits certain corporate taxpayers from claiming certain refundable tax credits (Items #43 & 44)

Present law levies a tax on corporate net income of 4% of the first $25,000, 5% from $25,000 - $50,000, 6% from $50,000 - $100,000, 7% from $100,000 - $200,000, and 8% above $200,000. Corporate filers are allowed to deduct federal taxes paid when computing their state taxable income. A tax is also levied on taxable capital of 0.15% of the first $300,000 and 0.3% above $300,000.

Proposed law repeals both taxes entirely beginning January 1, 2017. Also disallows certain credits against these taxes including the credits for ad valorem taxes paid on inventory, OCS vessels and landline telephone company property, as well as the angel investor credit, the digital media credit, the Citizens insurance assessment credit, and the credit for milk producers.

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.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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						

EXPENDITURE EXPLANATION

The Department of Revenue will incur costs involved in modifying its systems dealing with both the corporate income and franchise taxes (estimated at $30,000). Taxpayer education and compliance support expenses may also be incurred.

REVENUE EXPLANATION

The current official forecast for corporate income and franchise tax combined is $423 million in FY17, $516 million in FY18, $361 million in FY19, and $414 million in FY20. Since receipts in a fiscal year reflect returns filed for a number of tax years, the revenue loss from a repeal of these taxes beginning January 1, 2017 will likely be less in the early fiscal years after the repeal, and eventually grow to the full fiscal year effect. The Department attempted to get a sense of the proportion of fiscal year receipts attributable to different tax years by querying their tax system for different tax year returns filed within various fiscal year periods. The results of that query for the FY12 period provide a rough guide for how these taxes may phase-out even under an immediate repeal; 88% income and 93% franchise in their respective year 1 ($377 million), 94% income and 99% franchise in year 2 ($492 million), and 100% for both taxes by year 3 ($361 million then $414 million years 4 and 5). In addition, refund carryovers from prior year overpayments, averaging $431 million per year, will presumably have to be paid. These overpayments are assumed refunded evenly over the first two years. These factors are combined to generate estimated revenue losses of $593M FY17, $708M FY18, $361M FY19, and $414M in both FY20 and FY21.

These revenue losses would presumably be ameliorated by the fact that while the bill immediately repeals major state revenue sources, certain benefit programs (but not all) charged against these revenues are also eliminated. The six programs charged against these taxes that are eliminated charged $508 million against these taxes in FY14. There would likely be a phase-out of these charges, as well, reducing the annual revenue losses discussed above, but for at least the first two fiscal years it seems unlikely that reduced credit payouts will entirely offset revenue losses. In addition, there are a number of other benefit programs (refunds and rebates) charged against these two taxes that do not appear to be eliminated by the bill. Presumably, these benefit are to continue after these taxes are eliminated, and the total costs to the state from repealing these taxes will be effectively greater than discussed here. The state would lose the net revenue expected from these taxes after all benefits are charged, and the state would still have the costs of the benefits with other revenue collections or appropriations. Thus, substantial net revenue losses to the state are still likely. Insufficient time is available for a more complete assessment of the likely net effect of the bill.

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
Legislative Fiscal Officer