LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 648** HLS 17RS 300
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 28, 2017 12:06 PM
Author: HAVARD
Dept./Agy.: Revenue
Subject: Louisiana Business Tax
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TAX/STATE OR INCREASE GF RV See Note
Levies the Louisiana Business Tax

Proposed law imposes a tax on business activity in Louisiana. For affected businesses, the new tax base is federal taxable income adjusted (both plus and minus) with various types of income and expenses, and apportioned to Louisiana with an equally weighted 3-factor-based ratio of sales, property, and wages (instate relative to total business-wide), with alternative apportionment methods for business in certain industries. The tax rate is 1.5% applied to the tax base between $500,000 and $5 million, and 2% applied to the tax base over $5 million. The new tax would be in lieu of corporate income and franchise taxes. Effective January 1, 2018.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	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	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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 implementation of a new tax with various new calculations will likely require significant administrative expense to design, program, and test the tax processing system. The Dept. of Revenue estimates $684,000 of such costs in the first year. In addition, the Dept. requests two additional tax specialist positions to administer the tax on an ongoing basis, with personnel costs of $139,416 per year. Given the large number of affected businesses and the complexity of the tax, it seems likely that additional personnel beyond this minimal level will likely be needed.

REVENUE EXPLANATION

The Dept. was unable to calculate the change in tax on the basis of actual tax return data. Instead, an aggregate approach was taken based on analysis carried out for a business activity tax proposed for refineries. Applying the ratio of tax base to refinery industry state gross domestic product (GDP) from that analysis to total private sector GDP implied an apportioned total business tax base for this bill of some $33.851 billion. The 2% tax rate was applied to that base to generate an estimate of $677 million of total new business tax. From that estimate of total new tax was subtracted the current corporate income & franchise tax expected in FY178 of $451.9 million to get a rough estimate of the additional annual tax amount this bill may generate; some $225 million.

With a January 1, 2018 effective date and quarterly declaration payments required, initial tax payments would be due in the first half of 2018 (within the second half of FY18) from any entities whose estimated tax is expected to be at least $5,000. Applying the average share of the corporate income tax paid through declarations over the 2012-2015 period (53%) to the annual liability increase, and taking half of that amount, results in a potential $59.6 million being paid within FY18. The tax then steps up toward full annual receipts in FY19 and beyond. While some additional tax receipts are likely in FY18, this is an entirely new tax and an expectation of any particular amount of receipts without any experience with the tax entails substantial risk.

In addition, the bill's fiscal estimate is an inference from broad economic data (GDP) and not a calculation of actual tax return data. While not as volatile as tax return data, GDP data is far removed from actual tax return calculations that will generate the actual realizations of this new tax, net of actual income & franchise tax liabilities. The reliability of the resulting estimates is unknown. The Dept. did take an alternative approach, also based on broad economic concepts, to arrive at a new tax estimate some $40 million lower than the $225 million discussed above. While providing some comfort of a ballpark range of possible outcomes, the reliability of inferences from broad economic data is still largely unknown.

An additional complication is the consideration of overpayments of income & franchise tax from prior periods. This amounts has averaged $387M in recent years, and it is uncertain if taxpayers will claim refund of all or a portion of this amount due them should the income & franchise tax be eliminated for them as a result of a business activity tax liability.

Senate — Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

House

- [ ] 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}

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